

**FEDERAL DEPOSIT  
INSURANCE CORPORATION**

**2017 Annual  
Performance Plan**

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## CHAIRMAN'S MESSAGE

I am pleased to present the Federal Deposit Insurance Corporation's *2017 Annual Performance Plan* that outlines the FDIC's goals and priorities for this year.

The FDIC plays an important role in maintaining public confidence and stability in the U.S. financial system. For more than 80 years, it has fulfilled that mission through its deposit insurance, bank supervision, and failed bank resolution programs. As of December 31, 2016, the FDIC insured almost 600 million accounts with more than \$6.9 trillion in depositor funds at over 5,900 institutions across the nation.

The *2016 Annual Report* described the FDIC's many accomplishments in fulfilling its core mission responsibilities last year. In 2017, the FDIC expects the U.S. economy and the banking industry to continue their gradual recovery from the recent financial crisis. Capital levels, liquidity, asset quality, and earnings for insured institutions have all improved, but the FDIC will remain vigilant and will be prepared to address any unexpected problems that may arise.

During 2017, the FDIC will continue to focus on the fulfillment of its core mission responsibilities, with increased attention to cybersecurity and other new, technology-related risks in insured depository institutions. The FDIC will also continue to carry out its expanded post-crisis responsibilities (in coordination with the Federal Reserve Board) related to resolution planning for systemically important financial institutions (SIFIs). In addition, it will conduct research on and provide outreach and technical assistance to community banks.

The FDIC has been a symbol of trust for depositors in FDIC-insured financial institutions since 1933 and will carry that tradition forward in 2017.

Martin J. Gruenberg  
Chairman

**PROGRAM DESCRIPTIONS AND  
ANNUAL PERFORMANCE GOALS**

***INSURANCE***

***SUPERVISION***

***RECEIVERSHIP MANAGEMENT***

## **INSURANCE PROGRAM**

The FDIC maintains stability and public confidence in the U.S. financial system by providing deposit insurance. Through its industry and consumer awareness programs, the FDIC seeks to increase public awareness and understanding of deposit insurance rules and coverage. The FDIC and other federal regulatory agencies make sure that insured depository institutions accurately disclose uninsured products. The FDIC also informs depositors and financial institution staff about how the insurance rules and limits apply to specific deposit accounts.

Before a prospective insured depository institution can open for business, it must apply to the FDIC for federal deposit insurance. The FDIC then evaluates an applicant's potential risk to the Deposit Insurance Fund (DIF) by assessing the adequacy of its capital, future earnings potential, and the general character of its management. Before granting access to the federal deposit insurance system, the FDIC also considers the needs of the community that the applicant plans to serve and obtains input from other regulatory authorities.

Communication and coordination with the other bank regulatory agencies are top priorities for the FDIC. As the insurer, the FDIC, by statute, has special (back-up) examination authority for all insured depository institutions. If significant emerging risks or other serious concerns are identified for an insured depository institution for which the FDIC is not the primary federal supervisor, the FDIC and the institution's primary supervisor work together to address those risks or concerns.<sup>1</sup>

When an insured depository institution fails, the FDIC makes sure that the institution's customers have prompt access to their insured deposits and other services. To keep pace with the evolving banking industry and maintain its readiness to protect insured depositors, the FDIC prepares and maintains contingency plans to respond promptly to a variety of failure scenarios for insured depository institutions.

The financial crisis of 2008–09 and ensuing recession resulted in a large number of depository institution failures and high losses to the DIF. The number of problem banks peaked in 2010 and has been declining since 2011. Similarly, the number of bank failures declined from a peak of 157 in 2010 to five in 2016. This trend has allowed the FDIC to rebuild the DIF. As of December 31, 2016, the fund balance had risen to \$83.2 billion from a low of -\$20.9 billion at the end of 2009. In addition, the reserve ratio (the fund balance as a percent of estimated insured deposits) had risen to 1.20 percent at the end of 2016 from 1.11 percent a year earlier.

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<sup>1</sup>An institution's charter and its Federal Reserve System membership status determine which federal banking agency is the institution's primary federal supervisor.

The Dodd-Frank Act (DFA) of 2010 revised the statutory authorities governing the FDIC's management of the DIF. As a result of the changes mandated by the DFA, the FDIC developed a comprehensive, long-term management plan for the DIF that sets a target reserve ratio of 2 percent and a strategy for establishing assessment rates and dividends to meet that target. The plan also aims to achieve moderate, steady assessment rates throughout economic and credit cycles to reduce pro-cyclicality while maintaining a positive fund balance even during a banking crisis. The DFA requires that the reserve ratio reach 1.35 percent by September 30, 2020, and the FDIC has adopted a Restoration Plan to ensure that the reserve ratio reaches that threshold as required.

As part of its DIF management plan, the FDIC has updated its risk-based assessment system to ensure that insurance assessments better reflect the risk that institutions pose to the DIF.

The table below depicts the strategic goal, strategic objectives, and annual performance goals for the Insurance Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Insured depositors are protected from loss without recourse to taxpayer funding.	Customers of failed insured depository institutions have timely access to insured funds and financial services.	Respond promptly to all insured financial institution closings and related emerging issues. (1.1-1)
	The FDIC promptly identifies and responds to potential risks to the DIF.	Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis. (1.2-1)
	The DIF and the deposit insurance system remain strong and adequately financed.	Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020. (1.3-1)
		Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide. (1.3-2)

	The FDIC resolves the failure of insured depository institutions in the manner least costly to the DIF.	Market failing institutions to all known qualified and interested potential bidders. (1.4-1)
	The public and FDIC-insured depository institutions have access to accurate and easily understood information about federal deposit insurance coverage.	Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts. (1.5-1)

**STRATEGIC GOAL 1:**

Insured depositors are protected from loss without recourse to taxpayer funding.

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**STRATEGIC OBJECTIVE 1.1**

Customers of failed insured depository institutions have timely access to insured funds and financial services.

**Annual Performance Goal 1.1-1**

Respond promptly to all insured financial institution closings and related emerging issues.

Indicators and Targets

1. Number of business days after an institution failure that depositors have access to insured funds
  - *Depositors have access to insured funds within one business day if the failure occurs on a Friday.*
  - *Depositors have access to insured funds within two business days if the failure occurs on any other day of the week.*
2. Insured depositor losses resulting from a financial institution failure
  - *Depositors do not incur any losses on insured deposits.*
  - *No appropriated funds are required to pay insured depositors.*

Means and Strategies

*Operational Processes (initiatives and strategies):* When an insured institution is identified as a potential failure, the FDIC develops a plan to handle the possible resolution of the institution. This begins with an assessment of the institution's assets and liabilities. The FDIC then develops an information package that is used as a marketing tool and is provided to institutions that are interested in assuming the failed institution. The FDIC solicits proposals from approved bidders to find a buyer for the deposit franchise.

If the federal or state supervisor chooses to close the institution, the FDIC is named receiver, takes control of the failed institution, and determines which deposits are insured. Once the FDIC is appointed receiver, it initiates the resolution process for the failed institution.



If the failed institution is sold to another insured institution, the FDIC works with the assuming institution to transfer the insured deposit accounts as quickly as possible. If no assuming institution is found during the resolution process, the FDIC disburses insured deposit balances directly to customers of the failed institution. In either case, the FDIC provides the insured depositors with access to their accounts within one or two business days.

As banking industry practices and technologies evolve, so do potential risks that might affect the resolution process. The FDIC continues to review and enhance its existing plans, processes, and systems in response to those changes and potential risks.

*Human Resources (staffing and training):* For 2017, the FDIC has authorized staffing of 534 employees dedicated to handling the failure of insured financial institutions and the management of ensuing receiverships. This includes 385 permanent positions and 149 nonpermanent positions. The number of both permanent and nonpermanent authorized positions is lower than in 2016, reflecting a continuing reassessment of the number staff needed to maintain FDIC's ability to quickly respond to future financial industry downturns and decline in the number of insured institution failures and assets under management. There are still a large number of open receiverships resulting from prior-year failures. Completing the residual management responsibilities related to these open receiverships will continue to substantially affect the FDIC's workload for several years.

*Information Technology:* Technology is critical to making deposit insurance determinations and payments efficiently. The FDIC uses the Claims Administration System (CAS) to identify depositors' insured and uninsured funds in failing and failed banks. For every failing bank, CAS is used prior to failure to estimate the amount of uninsured deposits for the least-cost test. When an insured deposit transaction is the least-cost resolution, CAS is used to determine the amount of the depositors' funds that is insured. For all failures, CAS is the system of record for the deposits of the failed bank and subsequent claims processing and tracking.

### Verification and Validation

If insured deposits are transferred to a successor institution, the number of business days before depositors have access to their insured funds is verified by comparing the date of failure to the date that the successor insured depository institution opens for business and makes insured funds available to the failed institution's depositors. For a depositor payout, the availability of funds is verified by comparing the date of failure with the date that deposit insurance checks are mailed to depositors or made available for pickup at the premises of the failed institution.

### 2016 Performance Results

The FDIC successfully met the performance target for this annual performance goal for each of the five insured institution failures that occurred in 2016. This annual performance goal and its associated performance indicators and targets are unchanged for 2017.

**STRATEGIC OBJECTIVE 1.2**

The FDIC promptly identifies and responds to potential risks to the DIF.

**Annual Performance Goal 1.2-1**

Disseminate data and analyses on issues and risks affecting the financial services industry to bankers, supervisors, the public, and other stakeholders on an ongoing basis.

Indicator and Targets

1. Scope and timeliness of information dissemination on identified or potential issues and risks
  - *Disseminate results of research and analyses in a timely manner through regular publications, ad hoc reports, and other means.*
  - *Undertake industry outreach activities to inform bankers and other stakeholders about current trends, concerns, and other available FDIC resources.*

Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC maintains a vigorous research and publications program that focuses on issues and topics of importance to the banking industry. Much of this research is conducted in collaboration with the academic community through the Center for Financial Research (CFR). Research findings are disseminated through *CFR Working Papers*, articles in professional journals, and presentations at conferences and other events. The FDIC also disseminates information and analyses on industry risks through periodic reports and publications (e.g., the *FDIC Quarterly Banking Profile* and the *FDIC Quarterly*), Financial Institution Letters, participation in industry events, and other outreach activities.

The FDIC conducts outreach sessions several times each year throughout the country. In addition, FDIC employees regularly attend conferences and meet with industry analysts and trade groups to exchange views and analyses. They also present Directors' College outreach sessions to local bank board members. During these sessions, FDIC employees share information with bank directors on current risks, new regulations, and emerging issues. In addition, local FDIC offices nationwide conduct banker roundtable events that provide a forum for bankers to receive information and raise questions about new regulatory guidance or emerging risks.

*Human Resources (staffing and training):* The FDIC employs economists, financial analysts, and other staff members who monitor risks within the banking industry and communicate those risks to FDIC management, other regulators, the industry, the public, and other stakeholders through a variety of media and forums.

Visiting scholars also participate in the FDIC's risk analysis program, and risk-focused examination training has been incorporated into the FDIC's examination schools.

In addition, the FDIC uses examiners and other staff located throughout the country to conduct banker outreach sessions as a collateral duty.

*Information Technology:* The FDIC's website ([www.fdic.gov](http://www.fdic.gov)) is a centralized source for FDIC research and analysis on potential areas of risk that is available to the industry, the public, and other regulators. Databases and reports provide comprehensive financial and structural information about every FDIC-insured institution. The data are provided in multiple formats, including eXtensible Business Reporting Language (XBRL), to provide access to financial institution information for all users of the data, including financial institutions, bank regulators, and the public.

#### Verification and Validation

Timely analyses of banking industry risks are included in regular publications or issued as ad hoc reports. Industry outreach activities aimed at the banking community and industry trade groups promote discussion of current trends and concerns and inform bankers about available FDIC resources. Publications and outreach events are documented through established reporting processes.

#### 2016 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2016. This annual performance goal and its associated performance indicator and targets are unchanged for 2017.

### **STRATEGIC OBJECTIVE 1.3**

The DIF and the deposit insurance system remain strong and adequately financed.

#### **Annual Performance Goal 1.3-1**

Adjust assessment rates, as necessary, to achieve a DIF reserve ratio of at least 1.35 percent of estimated insured deposits by September 30, 2020.

#### Indicators and Targets

1. Updated fund balance projections and recommended changes to assessment rates
  - *Provide updated fund balance projections to the FDIC Board of Directors by June 30, 2017, and December 31, 2017.*
  - *Recommend changes to deposit insurance assessment rates to the FDIC Board of Directors as necessary.*

## 2. Demonstrated progress in achieving the goals of the Restoration Plan

- *Provide progress reports to the FDIC Board of Directors by June 30, 2017, and December 31, 2017.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* This rule reflects the requirements imposed by the Dodd-Frank Act to increase the reserve ratio of the DIF. On June 30, 2016, a final rule went into effect that imposes surcharges on large banks. This rule, and the Restoration Plan adopted by the Board of Directors, will help the FDIC achieve the required 1.35 reserve ratio by September 30, 2020. As of December 31, 2016, the fund balance had risen to \$83.2 billion from its low of -\$20.9 billion at the end of 2009. The reserve ratio at December 31, 2016, was 1.20 percent.

The FDIC's Financial Risk Committee (FRC) recommends to the Chief Financial Officer a DIF contingent loss reserve for anticipated failures. The FRC regularly reviews adverse events to identify lessons or implications for monitoring and addressing risks, and consults with the other federal banking agencies in its deliberations.

The FDIC also maintains and, as necessary, enhances models that forecast failures, failure resolution costs, assessment revenue, investment revenue, operating expenses, and insured deposit growth in order to update the outlook for the insurance fund balance and reserve ratio and ensure compliance with the Restoration Plan.

In addition, the FDIC continues to enhance the techniques and methodologies used to analyze the nature of risk exposure, including scenario analysis and stress testing.

*Human Resources (staffing and training):* FDIC staff performs the analytical work associated with deposit insurance pricing and analysis of fund adequacy. The FDIC will continue to expand its ties to the academic community to broaden the information and analytical perspectives available to it as steward of the DIF.

*Information Technology:* The Risk-Rated Premium System (RRPS) calculates the premiums that financial institutions are assessed for deposit insurance. RRPS is updated and tested when the insurance assessment pricing structure changes.

### Verification and Validation

Pursuant to the Federal Information Security Management Act, a security review of RRPS is conducted annually to ensure that the system identifies higher-risk institutions and appropriately assesses higher insurance premiums. In addition, the Government Accountability Office reviews annually the methodology used to determine the contingent loss reserve.

In 2017, the FRC will again conduct semiannual reviews of the contingent loss reserve methodology by analyzing the difference between projected and actual losses.

In addition, FDIC staff will report semiannually to the FDIC Board of Directors on progress made in meeting the goals of the Restoration Plan.

### 2016 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2016. This annual performance goal and its associated performance indicators and targets are substantively unchanged, although the dates have been updated for 2017.

### **Annual Performance Goal 1.3-2**

Expand and strengthen the FDIC's participation and leadership role in supporting robust and effective deposit insurance programs, resolution strategies, and banking systems worldwide.

#### Indicators and Targets

1. Activities to expand and strengthen engagement with foreign jurisdictions and advance the FDIC's global leadership and participation
  - *Foster strong relationships with international banking regulators, deposit insurers, other relevant authorities by engaging with strategically important jurisdictions and organizations on international financial safety net issues.*
  - *Provide leadership and expertise to key international organizations and associations that promote sound deposit insurance and effective bank supervision and resolution practices.*
2. Provision of technical assistance to foreign counterparts
  - *Promote international standards and expertise in financial regulatory practices and stability through the provision of technical assistance and training to global financial system authorities.*

#### Means and Strategies

*Operational Processes (initiatives and strategies):* As a recognized global leader in promoting sound deposit insurance, bank supervision, and resolution practices, the FDIC provides technical guidance, training, consulting services, and information to governmental banking, deposit insurance, and resolutions organizations around the world. This is achieved, in part, through the FDIC's relationships with international financial institutions and regulatory agencies, and its leadership roles and participation in the International Association of Deposit Insurers (IADI), the Financial Stability Board (FSB), and the Association of Supervisors of Banks of the Americas (ASBA). The FDIC's Vice Chairman is currently serving as President and Chairman of the Executive Committee of IADI. In 2017, the FDIC will continue to support the governance, training, and other activities of the IADI, FSB, and ASBA.

In addition, the FDIC will engage bilaterally and multilaterally in 2017 with priority foreign authorities to further develop resolution strategies for global systemically important financial institutions (G-SIFIs) that are chartered or have a substantial presence in the U.S. This includes, among other things, participation in the FDIC-European Commission working group; close work with the Bank of England's Resolution Directorate and the Single Resolution Board; tabletop exercises, principal-level events, and joint papers; hosting of foreign delegations; and support for missions to foreign authorities. The FDIC also will convene Crisis Management Groups (CMGs) for G-SIFIs based in the United States, attend CMGs for non-U.S. G-SIFIs with significant U.S. operations, and participate in activities intended to implement the Key Attributes of Effective Resolution Regimes for Financial Institutions (Key Attributes) from a U.S. perspective. The Key Attributes, endorsed by the Group of Twenty (G-20) in 2011, set out the core elements necessary for an effective resolution regime, including the ability to manage the failure of a G-SIFI in a way that minimizes systemic disruption and avoids the exposure of taxpayers to the risk of loss.

The FDIC will support visits and technical assistance for foreign counterparts that strengthen bank supervision and regulation and promote the adoption of sound deposit insurance and resolution frameworks. The FDIC will continue to promote the adoption of sound bank supervisory principles and practices in the Americas by providing subject matter experts as instructors for ASBA-sponsored training and ASBA-led research and guidance initiatives.

The FDIC will support the International Monetary Fund and World Bank in their Financial Sector Assessment Program (FSAP), Reports on the Observance of Standards and Codes, and Technical Assistance by offering to provide subject matter experts for deposit insurance program reviews and resolution-related matters. The FDIC will continue its work with the FSB to develop an assessment methodology for the Key Attributes.

*Human Resources (staffing and training):* Available resources include an international affairs team dedicated to promoting the adoption of sound bank supervision, resolution, and deposit insurance principles and coordinating the FDIC's global outreach and technical assistance programs supplemented by subject matter experts within the FDIC. The International Affairs Branch regularly coordinates and collaborates with other divisions and offices on the FDIC's major international activities and outreach in order to advance the FDIC's international agenda.

*Information Technology:* Information about the FDIC's international programs, such as technical assistance, foreign visitor, and international leadership development programs, as well as associations with international bodies including IADI, ASBA, and the European Forum of Deposit Insurers, is communicated through the FDIC's public website ([www.fdic.gov](http://www.fdic.gov)).

#### Verification and Validation

Progress in meeting this annual goal is reported to FDIC's Division of Insurance and Research through established goal and strategy tracking processes. Quarterly reports document trends in the number of foreign visitors, foreign officials trained, technical assistance missions, and FDIC participation and leadership in key international organizations.

**2016 Performance Results**

The performance targets for this goal were successfully met in 2016. This annual performance goal and its associated performance indicators are unchanged, but the performance targets have been updated for 2017.

**STRATEGIC OBJECTIVE 1.4**

The FDIC resolves the failure of insured depository institutions in the manner least costly to the DIF.

**Annual Performance Goal 1.4-1**

Market failing institutions to all known qualified and interested potential bidders.

**Indicator and Target****1. Scope of qualified and interested bidders solicited**

- *Contact all known qualified and interested bidders.*

**Means and Strategies**

*Operational Processes (initiatives and strategies):* The FDIC markets the deposits and assets of failing institutions to all known qualified and interested potential bidders to encourage as much competition as possible. The FDIC maintains an inventory of qualified financial institutions that may be interested in bidding for a failing institution. In preparing a list of potential bidders for each failing institution, the FDIC takes into account the institution's geographic location, competitive environment, minority-owned status, financial condition, asset size, capital level, and regulatory ratings. Potential bidders are then given the opportunity to perform due diligence on the failing institution's assets and liabilities before determining whether to submit bids.

*Human Resources (staffing and training):* Franchise marketing is carried out primarily by specialized FDIC personnel with support, as needed, from staff in other disciplines. The FDIC's Resolutions and Receiverships Commissioning Program ensures the future availability of trained and qualified personnel to handle this and other aspects of the resolutions and receivership management functions. Staffing requirements are continually assessed within the context of current and projected workload to ensure that the FDIC is appropriately staffed.

The FDIC also uses contractor support, nonpermanent employees, and employees temporarily assigned from divisions and offices throughout the organization to meet workload demands and mission responsibilities in this area.

*Information Technology:* The FDIC documents franchise marketing activities through its automated Franchise Marketing System (FMS), which is supported by the 4C system.

### Verification and Validation

Data from the FMS are used to report on marketing and sales progress.

### 2016 Performance Results

The FDIC successfully met the performance target for this annual performance goal for each of the five insured institution failures that occurred in 2016. This annual performance goal and its associated performance indicator and target are unchanged for 2017.

## **STRATEGIC OBJECTIVE 1.5**

The public and FDIC-insured depository institutions have access to accurate and easily understood information about federal deposit insurance coverage.

### **Annual Performance Goal 1.5-1**

Provide educational information to insured depository institutions and their customers to help them understand the rules for determining the amount of insurance coverage on deposit accounts.

### Indicators and Targets

1. Timeliness of responses to deposit insurance coverage inquiries
  - *Respond within two weeks to 95 percent of written inquiries from consumers and bankers about FDIC deposit insurance coverage.*
2. Initiatives to increase public awareness of deposit insurance coverage changes
  - *Conduct at least four telephone or in-person seminars for bankers on deposit insurance coverage.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC uses various methods to educate insured financial institution employees and depositors about FDIC deposit insurance coverage. In addition to conducting seminars for bank employees, the FDIC encourages the dissemination of educational information through the banking industry and the media.

The FDIC also (1) operates a toll-free call center (877-ASK-FDIC) to answer questions about FDIC deposit insurance coverage, (2) maintains educational and informational resources on its website, (3) publishes articles on deposit insurance coverage in *FDIC Consumer News* (a quarterly newsletter for consumers published by the FDIC), and (4) works to raise awareness of deposit insurance coverage through the national and regional news media.

The call center is staffed by contractors who are trained to provide answers to many different questions about deposit insurance coverage.



Complex or unique issues, or those requiring additional analysis and review, are referred by the call center to FDIC employees who specialize in deposit insurance issues and who can research the issue and respond.

In addition, the FDIC administers a public education program that includes developing and distributing a wide range of written materials, videos, electronic calculators, and other tools to help consumers and bank employees understand how FDIC deposit insurance works. The FDIC also provides training to employees of insured financial institutions.

*Human Resources (staffing and training):* The FDIC has a dedicated staff of deposit insurance specialists and contractors who respond to thousands of telephone and written inquiries from consumers and bankers about deposit insurance coverage. The call center is also supported by a dedicated staff of subject matter experts on deposit insurance issues.

The FDIC regularly reviews staffing and training needs to ensure that the resources supporting deposit insurance educational initiatives are adequate and that employees possess the skills and knowledge to implement this program effectively and successfully.

*Information Technology:* The FDIC tracks the receipt of and response to written inquiries through the Specialized Tracking and Reporting System (STARS). The FDIC also provides the Electronic Deposit Insurance Estimator (EDIE), which consumers and bankers can use to estimate deposit insurance coverage, on its public website. The FDIC continues to use the internet and the latest multi-media technology to deliver educational tools and materials to the banking community and the public.

#### Verification and Validation

Progress in meeting the performance targets for this goal will be tracked through STARS and established reporting processes.

#### 2016 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2016. This annual performance goal and its associated indicators and targets are unchanged for 2017.

## **SUPERVISION PROGRAM**

To promote public confidence and stability in the nation's financial system, the FDIC's Supervision Program promotes the safety and soundness of insured depository institutions, protects consumer rights, and promotes community investment initiatives by FDIC-supervised institutions.

The FDIC is the primary federal regulator for state-chartered banks and savings institutions that are not members of the Federal Reserve System, generally known as state nonmember banks and state-chartered thrifts. This includes state-licensed insured branches of foreign banks and state-chartered savings institutions. As insurer, the FDIC also has special (back-up) examination authority for state member banks that are supervised by the Federal Reserve Board (FRB) and national banks and thrift institutions that are supervised by the Office of the Comptroller of the Currency (OCC). The FDIC's roles as insurer and primary supervisor are complementary, and many activities undertaken by the FDIC support both the insurance and supervision programs. Through the review of examination reports, use of off-site monitoring tools, participation in examinations conducted by other federal regulators, and, where appropriate, performance of special (back-up) examination activities, the FDIC regularly monitors the potential risks at all insured institutions, including those for which it is not the primary federal regulator.

The Dodd-Frank Act (DFA) of 2010 expanded the FDIC's statutory responsibilities beyond insured depository institutions to bank holding companies with more than \$50 billion in assets and nonbank financial companies that are designated as systemically important financial institutions (SIFIs) by the Financial Stability Oversight Council (FSOC). The DFA designates the FRB as the primary supervisor of these companies, but the FDIC has established on- and off-site monitoring programs and has certain statutory back-up examination authorities for these companies. The purpose of the FDIC monitoring and risk assessment activities for these institutions is, where possible, to mitigate identified risks; assess the adequacy of the institution's efforts to prepare to reorganize or liquidate through bankruptcy in the event of financial distress; and be prepared, if necessary, to conduct an orderly liquidation of the company.

As the primary federal regulator of all insured state nonmember banks and state-chartered thrifts, the FDIC performs periodic risk management examinations of these institutions to assess their overall financial condition, management policies and practices, and compliance with applicable laws and regulations. The FDIC also performs Bank Secrecy Act and information technology reviews at each risk management examination and, when applicable, conducts reviews of trust, registered transfer agent, municipal securities dealer, and government security dealer activities at these examinations.

Through the examination process, the FDIC also assesses the adequacy of an institution's management and internal control systems to identify and control risks and to detect the risks of fraud or insider abuse. In addition, the FDIC uses off-site monitoring programs to enhance its ability to promptly identify emerging safety-and-soundness issues.

The FDIC's compliance examination program promotes compliance with federal consumer protection laws, fair lending statutes, the Community Reinvestment Act (CRA), and the regulations that implement these laws and statutes. The program seeks to ensure that consumers are treated fairly and that the disclosures institutions provide to consumers are accurate and complete. To promote the most effective and efficient use of resources, the compliance examination program focuses on the bank's activities and products that pose the greatest potential risk of consumer harm or otherwise require increased supervisory attention. The FDIC conducts separate examinations for all state nonmember banks to assess the effectiveness of their compliance management systems and CRA performance. Banks that are subject to the primary jurisdiction of the Consumer Financial Protection Bureau (CFPB) are examined for compliance with the regulations that were not transferred to the CFPB, including the CRA. More information on the FDIC's relationship with CFPB can be found in Appendix D.

If weaknesses are identified through the examination process, the FDIC promptly takes appropriate supervisory action. Formal and informal enforcement actions may be issued to correct identified violations or other problems for institutions that are operating in a deteriorated financial condition; failing to comply with consumer protection, fair lending, and other statutes; or displaying other significant weaknesses, including weaknesses in operations or risk management practices. These enforcement actions remain in place until the identified weaknesses are remedied.

The FDIC also investigates consumer complaints about FDIC-supervised insured depository institutions. Consumers write or electronically submit to the FDIC complaints and inquiries regarding consumer protection and fair lending issues. Through its investigation of and response to consumer complaints and inquiries, the FDIC attempts to help consumers better understand their rights under federal consumer protection and fair lending laws. The FDIC uses surveys to monitor consumers' satisfaction with its responses to complaints and inquiries.

In addition, the FDIC acts on applications from FDIC-supervised insured depository institutions to undertake new or expanded business activities. For reviewing these applications, the FDIC evaluates various factors, including capital adequacy, quality of management, financial condition, and compliance with applicable laws and regulations. It also considers an institution's compliance with consumer protection, fair lending, and privacy laws and its performance under the CRA.

Information about the FDIC's supervisory program, including laws, regulations, and regulatory guidance, is available at [www.fdic.gov](http://www.fdic.gov). The FDIC's semiannual *Supervisory Insights* journal provides information about bank supervision to bankers, bank examiners, and other practitioners.

The FDIC will focus in 2017 on addressing a variety of risks to financial institutions including potential changes in interest rates, growth in asset concentrations, and cybersecurity risks.

In addition, the FDIC will continue to implement its authorities under the DFA, as well as its ongoing community banking initiative.

### *Interest-Rate Risk*

While interest rates remained stable for an extended period, a recent interest rate increase and a rising interest rate environment could adversely affect the net worth and earnings performance of a number of institutions. In an effort to alleviate the impact of low interest rates and increase net interest margins, banks have been investing in longer-term assets and increasing the mismatch between asset and liability maturities. This mismatch exposes an institution to interest-rate risk. In 2017, the FDIC will continue to identify and address interest-rate risk at FDIC-supervised institutions through off-site analysis and on-site examinations.

### *Concentration Risk*

In 2017, the FDIC also will closely monitor concentrations of assets at FDIC-supervised institutions to ensure that they are managing the potential risks associated with holding a large concentration of assets in any particular area. High concentrations of assets can expose an institution to economic, credit, and interest-rate risks. Although many institutions effectively manage portfolio concentrations, the recent financial crisis demonstrated that a number of banks failed to do so, either by failing to implement effective risk management practices or through a lack of sufficient financial and managerial resources. As a result, improperly managed concentration risk contributed significantly to bank losses and failures, as well as losses to the DIF. In 2017, the FDIC will continue to identify and monitor the risk management practices of institutions with high levels of asset concentrations. Examination procedures will focus on underwriting, credit administration, portfolio management, and monitoring practices.

### *Cybersecurity*

Cybersecurity is another significant concern for the banking industry because of the industry's use of and reliance on technology, not only in bank operations, but also as an interface with customers. Cybersecurity has become one of the most critical challenges facing the financial services sector due to the frequency and increasing sophistication of cyber attacks. In response, financial institutions and their service providers are continually challenged to assess and strengthen information security programs and refocus their efforts and resources to address cybersecurity risks.

In 2016, the FDIC added to its cybersecurity awareness resources for financial institutions. For example, the FDIC published an article in *Supervisory Insights* titled, "Framework for Cybersecurity" that discusses how financial institutions' information security programs can be enhanced to address evolving cybersecurity risks. The FDIC also published a technical assistance video on outsourcing technology services to assist community banks in developing a comprehensive risk-assessment program for vendor management. The FDIC created a dedicated cybersecurity resources webpage on [www.fdic.gov](http://www.fdic.gov) that provides bankers with quick access to the technical assistance videos, articles, exercises, and FILs that address cybersecurity.

Finally, the FDIC published information brochures financial institutions can use to educate their retail and business banking customers on cyber risk prevention. These include a Cybersecurity Awareness video and Cyber Challenge, a series of seven video vignettes and exercises that are intended to encourage bank management and staff to discuss operational risk issues and the potential impact of information technology disruptions on common banking functions.

As a member of the Federal Financial Institutions Council (FFIEC), the FDIC developed and issued numerous statements about emerging cybersecurity and technology risks and provided additional information on how the interagency Cybersecurity Assessment Tool can help financial institutions assess their inherent risk and cybersecurity preparedness.

The FDIC monitors cybersecurity issues on a regular basis through on-site bank examinations. During 2016, the FDIC continued to strengthen our IT and operational risk supervision program by adding approximately 20 authorized positions that will be responsible for conducting and providing oversight of complex IT examinations of financial institutions and large Technology Service Providers. The FDIC also implemented a revised IT examination work program for community banks that includes an assessment of an institution's cybersecurity preparedness efforts.

The FDIC will continue its efforts to promote the security and resilience of the financial services sector by collaborating with its fellow banking regulators through the FFIEC's Cybersecurity and Critical Infrastructure Working Group, the Information Technology Subcommittee, and the Financial and Banking Information Infrastructure Committee.

#### *Dodd-Frank Responsibilities*

In 2017, the FDIC will continue to develop its capabilities related to its responsibilities under the DFA. The FDIC will conduct ongoing risk monitoring reviews of all banking organizations with more than \$100 billion in assets, as well as certain nonbank SIFIs. In addition, we will complete our review of the resolution plans submitted by insured depository institutions and bank holding companies with assets of \$50 billion or more, as well as nonbank financial companies designated by the FSOC. The FDIC is responsible for ensuring that these resolution plans provide a viable approach for reorganizing a firm or liquidating it through bankruptcy without severe adverse consequences for the financial system or the U.S. economy.

#### *Community Banking Initiative*

Finally, community bank issues will remain a high priority for 2017. The FDIC will continue to consult with the Community Banking Advisory Committee and to follow up on the recommendations from its *Community Banking Study* to make its supervisory process more efficient, consistent, and transparent to community banks.

The following table depicts the strategic goal, strategic objective, and annual performance goals for the Risk Management component of the Supervision Program.

Strategic Goal	Strategic Objective	Annual Performance Goals
FDIC-insured institutions are safe and sound.	The FDIC exercises its statutory authority, in cooperation with primary federal regulators and state agencies, to ensure that all FDIC-insured institutions appropriately manage risk.	Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected. (2.1-1)
		Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes. (2.1-2)
		More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels. (2.1-3)
		Implement strategies to promote enhanced information security, cybersecurity, and business continuity within the banking industry. (2.1-4)

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Compliance and Consumer Affairs components of the Supervision Program.

Strategic Goal	Strategic Objectives	Annual Performance Goals
Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.	FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws and do not engage in unfair or deceptive practices.	Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs, and follow up to ensure that identified problems are corrected. (3.1-1)
	Consumers have access to accurate and easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.	Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions. (3.2-1)
	The public has fair access to banking services and is treated equitably by FDIC-supervised institutions.	Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives. (3.3-1)

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Resolution Planning component of the Supervision Program.

<b>Strategic Goal</b>	<b>Strategic Objective</b>	<b>Annual Performance Goal</b>
Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.	Large and complex financial institutions are resolvable under the Bankruptcy Code.	Identify and address risks in large and complex financial institutions, including those designated as systemically important. (4.1-1)



**STRATEGIC GOAL 2:**

FDIC-insured institutions are safe and sound.

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**STRATEGIC OBJECTIVE 2.1**

The FDIC exercises its statutory authority, in cooperation with primary federal regulators and state agencies, to ensure that all FDIC-insured institutions appropriately manage risk.

**Annual Performance Goal 2.1-1**

Conduct on-site risk management examinations to assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. When problems are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.

Indicators and Targets

1. Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy
  - *Conduct all required risk management examinations within the timeframes prescribed by statute and FDIC policy.*
2. Follow-up actions on identified problems
  - *For at least 90 percent of institutions that are assigned a composite CAMELS rating of 2 and for which the examination report identifies “Matters Requiring Board Attention” (MRBAs), review progress reports and follow up with the institution within six months of the issuance of the examination report to ensure that all MRBAs are being addressed.*

Means and Strategies

*Operational Processes (initiatives and strategies):* Risk management examinations assess the overall financial condition, management practices and policies, and compliance with applicable laws and regulations of FDIC-supervised depository institutions. The FDIC performs safety and soundness, Bank Secrecy Act, and information technology (IT) reviews at each risk management examination of an FDIC-supervised insured depository institution. As applicable, the FDIC also conducts reviews of trust, registered transfer agent, municipal securities dealer, and government security dealer activities at these examinations.

In 2017, the FDIC projects that it will conduct more than 1,676 risk management examinations required under statute, FDIC policy, or agreements with state supervisors.

The number of risk management examinations conducted during 2017 may fluctuate as the number of FDIC-supervised insured depository institutions changes as a result of mergers, closings, newly approved charters, and other actions. In addition, increases in asset size or changes to an institution's condition or capital levels may accelerate examination cycles and increase the number of required examinations.

The FDIC follows a risk-focused approach to examinations, which allows examiners to focus resources on those areas with the greatest potential risk. The FDIC has several analytical models to identify higher-risk financial institutions by considering factors such as rapid growth, fluctuating earnings, economic downturns, and concentrations in vulnerable industry sectors. Examiners use these off-site tools to help them focus on various risks during on-site examinations. These models are also used to identify the need for inquiries or on-site visits to FDIC-supervised institutions outside of the regular examination cycle.

On-site examinations also review technology-related activities to determine how each FDIC-supervised depository institution manages its IT risks. The FDIC proactively monitors indicators of technology risk that may affect FDIC-supervised institutions and provides information to the industry about risks associated with technology outsourcing practices (e.g., contracting for computer services). The FDIC regularly talks with technology vendors, bank trade associations, and standards- and rule-setting entities to identify and promote effective risk management practices for emerging technologies.

The examination report identifies any corrective actions to be taken by the institution. If deemed necessary, a formal or informal enforcement action is sent to the financial institution with the report of examination. To ensure that supervisory actions are taken promptly, the FDIC monitors the time it takes to provide examination reports to FDIC-supervised institutions after the completion of an examination. In addition to an on-site visit and a subsequent examination, compliance with an enforcement action is assessed through progress reports from the institution, use of off-site monitoring tools, and direct communication with management of the financial institution.

At this point in the economic cycle, it is important to ensure that problems identified at well-rated institutions are promptly addressed before they result in more serious deficiencies requiring formal or informal corrective programs. When there are material issues and recommendations that require attention by the institution's Board of Directors, the examination report will identify MRBAs to highlight areas that, if not properly measured, monitored, and controlled, could adversely affect the institution. A timely response is requested from institution management to mitigate risks and correct noted deficiencies. The response is reviewed to ensure it is appropriate and that it addresses supervisory concerns.

*Human Resources (staffing and training):* In 2017, the FDIC has 1,594 authorized positions (1,520 permanent and 74 nonpermanent) in its field workforce to conduct risk management examinations. This includes 30 specialized IT Examination Analyst (ITEA) positions to augment the IT expertise within the examination workforce. Field examiners conduct on-site examinations and visits.

Staffing and training needs are reviewed regularly to ensure that the examination staff possesses the skills and knowledge to effectively identify existing and emerging risks. During 2016, all FDIC field examiners received training on the Information Technology Risk Examination (InTREx) program that was released in June 2016. A comprehensive update to the FDIC Information Technology Examination Course also was completed in 2016 and is part of the core FDIC Commissioned Examiner program. In addition, the FDIC began revising the IT subject matter expert on-the-job training program in 2016 and will complete that revision in 2017.

The FDIC has cooperative agreements with most states to conduct joint or alternating risk management examinations. If a state supervisor handling an examination has scheduling, staffing, or other resource constraints, the statutory examination requirement may not be met. In such cases, the FDIC will work with the state supervisor to make sure that any delinquent examination is quickly scheduled and completed. When appropriate, the FDIC may conduct the examination instead of the state supervisor.

Case managers and other regional office officials finalize reports of examination and monitor compliance with enforcement programs. Staffing and training needs for this function are also reviewed regularly to ensure that the resources available are adequate and that employees possess the required skills and knowledge.

*Information Technology:* The FDIC's Virtual Supervisory Information on the Net (ViSION) system is used to schedule and track the completion of risk management examinations. ViSION also is used to monitor all enforcement activity and other significant events at troubled institutions and to schedule on-site visits and follow-up examinations of 3-, 4-, and 5-rated institutions.

The FDIC completed in 2016 a multi-year project to develop and implement a new Examination Tools Suite (ETS) that replaces four examination-related software applications and addresses the risk of technological obsolescence. This suite replaces legacy electronic loan review and report of examination generator software.

#### Verification and Validation

The number and timing of examinations are tracked through ViSION and reported through established management processes. Enforcement actions and the timing of required on-site visits are tracked through ViSION. The FDIC uses its Regional Office Internal Control Review program to ensure that regions effectively monitor the compliance of FDIC-supervised institutions with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including assessment of the appropriateness of formal and informal corrective actions and monitoring of enforcement implementation and follow-up activities. Any material exceptions noted during the reviews are brought to management's attention for appropriate action.

## 2016 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2016. This annual performance goal and its associated performance indicators and targets are unchanged for 2017.

### **Annual Performance Goal 2.1-2**

Assist in protecting the infrastructure of the U.S. banking system against terrorist financing, money laundering, and other financial crimes.

#### Indicator and Target

1. Percentage of required examinations conducted in accordance with statutory requirements and FDIC policy
  - *Conduct all Bank Secrecy Act examinations within the timeframes prescribed by statute and FDIC policy.*

#### Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC conducts Bank Secrecy Act/Anti-Money Laundering (BSA/AML) examinations and Office of Foreign Assets Control (OFAC) reviews to assess the BSA/AML and OFAC compliance programs of FDIC-supervised financial institutions. These examinations and reviews cover sound risk management, compliance with recordkeeping requirements, and the ability of the institution to identify and report suspicious activity. BSA/AML examinations and OFAC reviews are performed as a part of all risk management examinations of FDIC-supervised insured depository institutions. The FDIC also completes BSA exams for states that do not conduct these exams. The FDIC follows a risk-based approach to BSA/AML examinations and OFAC reviews, which allows examiners to focus resources on those areas with the greatest potential risk.

Guidance is provided to risk management staff through written memoranda, participation in the FFIEC BSA/AML Examination Workshop, and attendance at the FFIEC Advanced BSA/AML Specialists Conference.

*Human Resources (staffing and training):* There are 330 FDIC examiners who are designated as BSA/AML subject matter experts. Staffing and training needs are reviewed regularly to ensure that the staff resources supporting the BSA/AML examination program are adequate and that employees possess the skills and knowledge to effectively and successfully assess compliance with BSA/AML requirements and detect any emerging risks.

*Information Technology:* ViSION is used to track the number and timing of required BSA/AML examinations. Examiners also use ETS to update BSA violation codes automatically, thereby increasing the efficiency of those examinations.

**Verification and Validation**

The number and timing of BSA/AML examinations are tracked in ViSION and reported through established management processes.

**2016 Performance Results**

The FDIC successfully met the performance target for this annual performance goal in 2016. This annual performance goal and its associated performance indicator and target are unchanged for 2017.

**Annual Performance Goal 2.1-3**

More closely align regulatory capital standards with risk and ensure that capital is maintained at prudential levels.

**Indicators and Targets**

1. Simplification of capital standards for community banks
  - *Issue a Notice of Proposed Rulemaking (NPR) for a simplified capital framework for community banks.*
2. U.S. implementation of internationally agreed regulatory standards
  - *Issue a final rule implementing the Basel III Net Stable Funding Ratio.*

**Means and Strategies**

*Operational Processes (initiatives and strategies):* FDIC staff has been working closely with the staffs of the other federal banking agencies to develop a proposal to simplify the capital framework applicable to community banks. The federal banking agencies identified the regulatory capital framework as a regulation that could be simplified as part of their most recent review of opportunities for regulatory burden reduction conducted pursuant to the Economic Growth and Regulatory Paperwork Reduction Act. The federal banking agencies hope, in particular, to simplify and streamline the capital treatment applicable to certain commercial real estate exposures. An NPR to seek comment on simplifications to the regulatory capital framework is targeted for consideration by the FDIC Board of Directors in September 2017.

FDIC staff has also been working closely with the staffs of other federal banking agencies to develop a final Net Stable Funding Ratio (NSFR) rule to implement in the United States. The rule would apply to internationally active banking organizations. In 2016, the FDIC, OCC, and FRB devoted substantial resources to develop an interagency notice of proposed rulemaking (NPR) to implement the NSFR rule. The NPR was issued in May 2016 and the public comment period closed August 5, 2016. The agencies received 27 comment letters and are reviewing them in order to draft a proposed final rule.

In considering these comments, the FDIC has been consulting internally with individuals and groups that have specialized expertise in areas such as complex financial institutions, supervision, accounting, consumer compliance, and insurance and research. FDIC staff also continues to lead and support the Basel Committee's ongoing quantitative impact study work on the NSFR.

*Human Resources (staffing and training):* The breadth and depth of knowledge among FDIC staff on bank liquidity, funding, and other capital markets matters has expanded in recent years, partly through continued staff participation and active involvement in numerous Basel policy development groups. In 2017, the FDIC will continue to increase the number of staff with capital market expertise by providing internal and external training on liquidity, funding, capital, trading activities, financial modeling, and other capital market areas.

*Information Technology:* The FDIC will use existing technology to accomplish this annual performance goal.

#### Verification and Validation

Progress in meeting this annual performance goal will be tracked through periodic meetings and established reporting processes.

#### 2016 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2016. The annual performance goal and its associated performance indicator are unchanged from 2016, but its associated performance target has been updated for 2017.

#### **Annual Performance Goal 2.1-4**

Implement strategies to promote enhanced information security, cybersecurity, and business continuity within the banking industry.

#### Indicator and Target

##### 1. Enhance the cybersecurity awareness and preparedness of the banking industry

- *Continue implementation of a horizontal review program that focuses on the IT risks in large and complex supervised institutions and Technology Service Providers (TSPs).*
- *Revise and implement by December 31, 2017, the Cybersecurity Examination Tool for TSPs.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* The importance of cybersecurity in ensuring the soundness and stability of the nation's financial sector cannot be overstated. As such, the FDIC takes this issue extremely seriously, and continually updates its procedures in order to effectively handle potential threats to the banking sector. Currently, the FDIC assesses supervised institutions' ability to manage information technology risks through the InTReX program. This program, developed in collaboration with the FRB and the Conference of State Bank Supervisors, supports examiners in evaluating information security, cybersecurity risk management, business continuity, incident response, audit and assessment, board and management oversight, vendor relationships, and payment systems. Whenever significant weaknesses are identified in supervised financial institutions or TSPs, the FDIC issues enforcement actions to compel correction.

In June 2015, the FFIEC agencies released a Cybersecurity Assessment Tool that institutions may use to conduct a self-assessment of their cyber preparedness. The FFIEC is in the process of preparing a cybersecurity assessment tool for TSPs that is planned to be released in 2017.

*Human Resources (staffing and training):* The vast majority of the FDIC's commissioned risk management examiners have basic IT examination skills attained through the FDIC's IT training programs. There are 478 commissioned FDIC examiners who have completed all four post-commission IT schools and more than 1,200 who have completed at least one of these schools. The FDIC also has 63 dedicated IT examiners, and 123 risk management examiners designated as either intermediate or advanced IT subject matter experts based on completion of the FDIC's IT on-the-job training program. Finally, 49 specialized Information Technology Examination Analysts support the IT examination process with advanced technical skills.

The IT examination function is supported by IT policy and examination personnel in the Washington, D.C., headquarters. The FDIC also has expanded its headquarters operations to address the growing risk exposure in the payment services area and to enhance its examination of TSPs and cybersecurity risks in the banking industry.

*Information Technology:* ViSION is used to schedule and track the completion of risk management examinations and any related enforcement actions or significant events at institutions due to noncompliance with IT-related banking laws and regulations.

### Verification and Validation

The number and timing of IT examinations are tracked through ViSION and reported through established management processes. Enforcement actions and the timing of required on-site visits are also tracked through ViSION.

The majority of TSP exams are conducted and scheduled on an interagency basis. Planning for examinations of the largest TSPs takes place annually with the OCC and the FRB. Examinations of smaller TSPs are managed at the FDIC regional office level in coordination with the local FRB and OCC counterparts.

All IT examination activity (including TSP examinations) conducted by FDIC staff and detailed information on individual examiner participation is tracked through FDIC systems.

The FDIC uses its Regional Office Internal Control Review program to ensure that regions effectively monitor the compliance of FDIC-supervised institutions with formal and informal enforcement actions. This review incorporates various components of the supervisory process, including assessment of the appropriateness of formal and informal corrective actions and monitoring of enforcement implementation and follow-up activities. Any material exceptions noted during the reviews are brought to management's attention for appropriate action.

#### 2016 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2016. This annual performance goal is unchanged from 2016, but the associated indicator and performance targets have been updated for 2017.



**STRATEGIC GOAL 3:**

Consumers' rights are protected, and FDIC-supervised institutions invest in their communities.

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**STRATEGIC OBJECTIVE 3.1**

FDIC-supervised institutions comply with consumer protection, CRA, and fair lending laws and do not engage in unfair or deceptive practices.

**Annual Performance Goal 3.1-1**

Conduct on-site CRA and consumer compliance examinations to assess compliance with applicable laws and regulations by FDIC-supervised depository institutions. When violations are identified, promptly implement appropriate corrective programs and follow up to ensure that identified problems are corrected.

Indicators and Targets

1. Percentage of examinations conducted in accordance with the timeframes prescribed by FDIC policy
  - *Conduct all required examinations within the timeframes established by FDIC policy.*
2. Implementation of corrective programs
  - *Conduct visits and/or follow-up examinations in accordance with established FDIC policies to ensure that the requirements of any required corrective program have been implemented and are effectively addressing identified violations.*

Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC conducts CRA and compliance examinations of FDIC-supervised depository institutions to determine compliance with consumer protection and fair lending laws and performance under CRA. The frequency of compliance examinations is specified by FDIC policy. For CRA examinations, the FDIC's examination frequency policy conforms to applicable provisions of the Gramm-Leach-Bliley Act (GLBA), which establishes the CRA examination cycle for most small banks. In 2017, the FDIC estimates that it will conduct approximately 1,303 compliance and/or CRA examinations.

The FDIC's compliance examination approach emphasizes a risk-focused scoping process to look at an institution's compliance risk management practices and the potential risk of consumer harm. This approach involves an expanded review of an institution's systems and compliance policies so that transaction testing can be better targeted and focused on areas that pose the greatest risk for consumer harm. This approach creates a more efficient and effective use of examination resources, especially in financial institutions with high compliance risk profiles.

Institutions with compliance deficiencies are identified primarily through the examination process. While discussions with bank management are usually sufficient to correct these deficiencies, the FDIC has broad enforcement powers to correct practices, conditions, or violations of law that threaten an institution's compliance with consumer protection and fair lending laws or a consumer's rights under those laws.

Institutions that are subject to enforcement actions because of unfavorable ratings for compliance with consumer protection and fair lending laws and regulations are closely monitored by regional office officials. A follow-up examination or on-site visit is conducted to review compliance with supervisory actions for each institution that receives an unsatisfactory rating. Additional follow-up action is taken when the initial corrective program is determined to have been insufficient in addressing the identified problem. Progress in complying with an enforcement action is also assessed through quarterly progress reports from, and direct communication with, management of the financial institution.

*Human Resources (staffing and training):* The FDIC has 490 authorized positions (470 permanent, 20 nonpermanent) in its field examination workforce for compliance and consumer protection in 2017. Staffing and training needs are reviewed regularly to ensure that staff resources supporting the compliance supervision program are adequate to conduct a high quality examination program and that employees possess the skills and knowledge to effectively implement this program.

*Information Technology:* The System of Uniform Reporting of Compliance and CRA Examinations (SOURCE) is used to schedule and track compliance examinations, support pre-examination planning, and provide management information.

#### Verification and Validation

The FDIC will analyze examination-related data collected in SOURCE to determine whether the performance target for this goal is achieved during the reporting period. Results will be reported through established management processes.

#### 2016 Performance Results

The FDIC successfully met the performance targets for the annual performance goal in 2016. This annual performance goal and its associated performance indicators and targets are unchanged for 2017.

**STRATEGIC OBJECTIVE 3.2**

Consumers have access to accurate and easily understood information about their rights and the disclosures due them under consumer protection and fair lending laws.

**Annual Performance Goal 3.2-1**

Effectively investigate and respond to written consumer complaints and inquiries about FDIC-supervised financial institutions.

Indicator and Target

## 1. Timely responses to written consumer complaints and inquiries

- *Respond to 95 percent of written consumer complaints and inquiries within timeframes established by policy, with all complaints and inquiries receiving at least an initial acknowledgement within two weeks.*

Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC has a comprehensive program to disseminate information to banks and the public on consumer rights under consumer protection and fair lending laws and regulations. It also operates a centralized Consumer Response Center (CRC) that coordinates the investigation of, and response to, consumer complaints and inquiries. For correspondence related to FDIC-supervised institutions, FDIC staff contacts the institution and reviews the bank's actions for compliance with applicable federal consumer protection regulations before providing a response. Correspondence regarding institutions under the jurisdiction of other primary federal regulators is referred to those agencies. Target response times vary by the type of inquiry or complaint.

*Human Resources (staffing and training):* The CRC is located in Kansas City and is staffed by FDIC employees. CRC staff and management work in partnership with supervisory staff in each region on consumer complaints and inquiries involving new or unusual issues or sensitive matters.

*Information Technology:* The FDIC uses an automated Customer Assistance Form on the FDIC's website to facilitate submission of consumer correspondence. The Specialized Tracking and Reporting System (STARS) is used to capture and report information regarding the FDIC's consumer assistance program, including response time.

Verification and Validation

The FDIC closely monitors the timeliness of its acknowledgment letters and responses through STARS. Performance results are monitored through established management processes.

In addition, surveys are sent to all consumers who have filed written consumer protection and fair lending complaints about an FDIC-supervised institution to assess their satisfaction with the FDIC's investigations and responses. Established survey research methods are used to ensure the validity and reliability of the survey instrument and results.

### 2016 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2016. This annual performance goal and its associated performance indicator and target are unchanged for 2017.

## **STRATEGIC OBJECTIVE 3.3**

The public has fair access to banking services and is treated equitably by FDIC-supervised institutions.

### **Annual Performance Goal 3.3-1**

Promote economic inclusion and access to responsible financial services through supervisory, research, policy, and consumer/community affairs initiatives.

### Indicator and Targets

#### 1. Completion of planned initiatives

- *Revise and administer the 2017 FDIC National Survey of Unbanked and Underbanked Households.*
- *Continue and expand efforts to promote broader awareness of the availability of low-cost transaction accounts consistent with the FDIC's Model SAFE transaction account template.*
- *Complete and pilot a revised, instructor-led Money Smart for Adults product.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* Approximately 27 percent of U.S. households are underserved by the banking industry, based on survey results previously published by the FDIC. This includes both "unbanked" households (i.e., those with no checking or savings accounts) and "underbanked" households (i.e., those with checking or savings accounts who have used nonbank alternative financial services and providers, such as money orders, check cashing services, payday loans, rent-to-own agreements, pawn shops, or refund anticipation loans, in the past 12 months).

The Advisory Committee on Economic Inclusion (ComeE-IN) supports research, demonstrations, and pilot projects and promotes sound supervisory and public policies to improve the “appropriate engagement” of underserved households with mainstream financial institutions. Appropriate engagement means that households are using financial products and services that are affordable, easy to understand, and not subject to unfair or unforeseen fees.

During 2017, the FDIC will revise and administer the *FDIC National Survey of Unbanked and Underbanked Households* conducted jointly with the U.S. Census Bureau. In addition to the survey, the FDIC also collects information to provide insights into banks’ efforts to serve the unbanked and underbanked. In 2017, the FDIC will conduct research focusing on banks’ use of mobile financial services to reach low- and moderate-income consumers. Together, these efforts will enable the FDIC to provide an important set of references that will help assess progress in the area of economic inclusion, as well as remaining challenges. In addition, the FDIC will be better positioned to identify strategies that promote economic inclusion by studying opportunities to expand access to mainstream financial services, identifying the role that community banks play in meeting community needs, and increasing awareness of communities that are currently underserved or at risk of becoming underserved.

ComeE-IN’s work will support the expanded availability of SAFE accounts and the responsible use of technology, including mobile banking, to expand banking services to the underbanked population. ComeE-IN may recommend to the FDIC specific measures of improvement, many of which may represent national objectives that require the participation and cooperation of multiple stakeholders, including other federal agencies; federal, state, and local policy makers; the financial services industry; nonprofit and philanthropic groups; and consumer groups.

During 2017, FDIC working groups will continue to conduct research, facilitate partnerships, and conduct outreach related to expanding access to mainstream banking services for underserved consumers. The FDIC may present these proposals to ComeE-IN for advice and recommendations.

*Human Resources (staffing and training):* This annual performance goal will be carried out largely by existing staff in the FDIC’s consumer research, policy, and consumer and community affairs functions. ComeE-IN activities are supported by staff in several FDIC divisions. Employees in those divisions provide staff support for ComeE-IN, as needed, including support for its research and demonstration activities.

*Information Technology:* Existing technology will be used to accomplish this goal. The FDIC broadcasts ComeE-IN’s public meetings on its website.

#### Verification and Validation

Progress in completing the initiatives planned for this annual performance goal will be monitored through established management reporting processes.

2016 Performance Results

The FDIC met the performance targets for this annual performance goal in 2016. This annual performance goal and its associated performance indicator are unchanged from 2016, but its performance targets have been updated for 2017.

**STRATEGIC GOAL 4:**

Large and complex financial institutions are resolvable in an orderly manner under bankruptcy.

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**STRATEGIC OBJECTIVE 4.1**

Large and complex financial institutions are resolvable under the Bankruptcy Code.

**Annual Performance Goal 4.1-1**

Identify and address risks in large, complex financial institutions, including those designated as systemically important.

Indicators and Targets

1. Compliance with the statutory and regulatory requirements under Title I of the DFA and Section 360.10 of the FDIC Rules and Regulations
  - *In collaboration with the FRB, continue to review all resolution plans subject to the requirements of Section 165(d) of the DFA to ensure their conformance to statutory and other regulatory requirements. Identify potential impediments in those plans to resolution under the Bankruptcy Code.*
  - *Continue to review all resolution plans subject to the requirements of Section 360.10 of the IDI Rule to ensure their conformance to statutory and other regulatory timeframes. Identify potential impediments to resolvability under the Federal Deposit Insurance (FDI) Act.*
2. Risk monitoring of large, complex financial institutions, bank holding companies, and designated nonbanking firms
  - *Conduct ongoing risk analysis and monitoring of large, complex financial institutions to understand and assess their structure, business activities, risk profiles, and resolution and recovery plans.*

Means and Strategies

*Operational Processes (initiatives and strategies):* Under Section 165(d) of the DFA, covered companies are required to submit resolution plans that provide for their rapid and orderly resolution under the Bankruptcy Code in the event of material financial distress or failure. The staffs of the FDIC and FRB have shared responsibility for the review of the plans submitted by covered companies to assess informational completeness and the resolvability of individual banks and bank holding companies.

In addition, under Section 360.10 of the FDIC Rules and Regulations, the IDI Rule requires each covered IDI to provide a resolution plan that allows the FDIC as receiver to resolve the institution in an orderly manner, enable prompt access to insured deposits, maximize the return from the failed institution's assets, and minimize losses realized by creditors and the DIF. The FDIC has the authority to review those plans.

Ongoing risk analysis and monitoring is conducted by resident FDIC teams at large, complex financial institutions and off-site analytical teams composed of quantitative experts and complex financial institution specialists with resolution and supervision backgrounds. The off-site teams analyze industry and market conditions and trends to support individual institution monitoring and the consideration of broader policy issues. They attempt to identify early warning signals and triggers and the range of possible response actions by monitoring financial condition and performance, assessing institutional risk management capabilities, and reviewing recovery plans. FDIC staff also participates in collaborative risk management examinations and targeted reviews of SIFIs with other regulatory agencies.

*Human Resources (staffing and training):* The FDIC's review of resolution plans submitted under Section 165(d) of the DFA is carried out by a multidisciplinary team of personnel from various divisions with expertise across all major operational and business line functions of the covered companies, both domestically and internationally. The FDIC's review of resolution plans submitted under the IDI Rule is carried out by multidisciplinary teams primarily consisting of commissioned examiners and resolution specialists. These teams are complemented by subject matter experts, as necessary. Training needs for each of these groups are reviewed regularly to ensure that these teams have the knowledge and expertise necessary to appropriately perform their assigned responsibilities.

Ongoing risk monitoring is conducted by on-site resident teams and off-site analysts who have expertise with large, complex financial institution operations.

*Information Technology:* The FDIC uses existing technology to track the submission and review of the resolution plans required under Section 165(d) of the DFA and Section 360.10 of the FDIC Rules and Regulations. In addition, the FDIC uses the Systemic Monitoring System for ongoing risk monitoring of systemically important bank holding companies and nonbank financial companies.

#### Verification and Validation

Progress in achieving this annual performance goal will be monitored through established management reporting processes.

#### 2016 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2016. This annual performance goal and its associated indicators and performance targets are substantially unchanged for 2017.



## **RECEIVERSHIP MANAGEMENT PROGRAM**

When an insured institution fails, the FDIC is appointed receiver. In its receivership capacity, the FDIC assumes responsibility for efficiently recovering the maximum amount possible from the disposition of the receivership's assets and the pursuit of the receivership's claims. Funds collected from the sale of assets and the disposition of valid claims are distributed to the receivership's creditors under the priorities set by law.

The FDIC focuses its receivership management efforts on the following four objectives:

- Resolving institutions in the least costly manner
- Managing and marketing failed institution assets to maximize return
- Pursuing monies due to failed institutions
- Resolving the debts of failed institutions fairly

The FDIC assesses the assets and liabilities of a failing institution to determine the institution's current market value. Using this information, the FDIC markets and sells various parts of the institution to acquiring institutions and investors. The FDIC markets failed institutions broadly, ensuring that all qualified parties are given an opportunity to present bids.

When an institution fails, it is closed by the appropriate chartering agency, and the FDIC is appointed receiver. After paying depositors their insured funds (if another institution has not assumed the deposits), the FDIC inventories and values any retained assets. It uses various strategies to sell the assets as quickly as practicable, although sales of certain complex assets can take a considerable amount of time. In the interim, the FDIC performs required asset servicing (such as maintenance of owned real estate and the collection and processing of loan payments) to maintain the value of these assets until they are sold. Throughout the asset valuation and sales processes, the FDIC also seeks payment from the debtors of the failed institution.

FDIC staff identifies and investigates claims owed to the receivership and pursues those claims on behalf of the receivership when it is cost effective to do so and/or when public policy dictates that the FDIC pursue legal action against potentially liable professionals (e.g., in certain negligence or fraud cases). The FDIC also ensures that legitimate claims against the receivership are satisfied fairly. The FDIC notifies likely claimants of the failed institution and provides them instructions on how to file a claim. Once the FDIC receives and analyzes the information, valid claims are paid under the priorities set by law.

Following the resolution of receivership claims, disposition of most assets, payment of eligible creditor claims, and allocation of any other funds on behalf of the receivership, the FDIC terminates the receivership. This involves preparation of final accounting statements and can require judicial confirmation that the obligations of the FDIC as receiver have been met.

In addition to resolutions administered using FDI Act authority, the FDIC may be called upon to carry out the orderly liquidation of certain large, systemically important financial companies under Title II of the DFA. In 2017, the FDIC will continue to pursue planning and operational readiness initiatives to bolster its ability to administer, if necessary, the resolution of large financial institutions including those designated as systemically important.

The following table depicts the strategic goal, strategic objectives, and annual performance goals for the Receivership Management Program.

Strategic Goal	Strategic Objective	Annual Performance Goals
Resolutions are orderly and receiverships are managed effectively.	Receiverships are managed to maximize net return and terminated in an orderly and timely manner.	Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return. (5.1-1)
		Manage the receivership estate and its subsidiaries toward an orderly termination. (5.1-2)
	Potential recoveries, including claims against professionals, are investigated and resolved in a fair and cost-effective manner.	Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions, and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution. (5.2-1)
	Resolution of the failure of a large, complex financial institution is carried out in an orderly manner in accordance with statutory mandates.	Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important. (5.3-1)

**STRATEGIC GOAL 5:**

Resolutions are orderly and receiverships are managed effectively.

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**STRATEGIC OBJECTIVE 5.1**

Receiverships are managed to maximize net return and terminated in an orderly and timely manner.

**Annual Performance Goal 5.1-1**

Value, manage, and market assets of failed institutions and their subsidiaries in a timely manner to maximize net return.

Indicator and Target

1. Percentage of the assets marketed for each failed institution

- *For at least 95 percent of insured institution failures, market at least 90 percent of the book value of the institution's marketable assets within 90 days of the failure date (for cash sales) or 120 days of the failure date (for structured sales).*

Means and Strategies

*Operational Processes (initiatives and strategies):* By quickly returning the assets of a failed institution to the private sector, the FDIC maximizes net recoveries and minimizes disruption to the local community. Given adequate time, the FDIC prepares an online information package and an asset valuation review for each failing insured depository institution to help solicit bidders, analyze bids received for the assumption of deposits, and sell as many of the institution's assets as possible at resolution or shortly thereafter. The FDIC markets most of the remaining assets within 120 days after an insured institution fails. Between 2008 and 2012, whole bank loss-share transactions were used extensively to sell most of the assets of a failed bank to an acquiring bank. Because of continued improvement in the economy, the use of loss-share transactions decreased significantly in 2013, and there were no loss-share transactions in 2014, 2015, or 2016.

After the resolution of the failed institution, the FDIC collects and manages the remaining assets in a cost-effective manner to maximize recoveries and preserve value until the assets can be marketed. The failed institution's assets are grouped into pools that will be most appealing to acquirers and are marketed through an internet-based platform. Potential asset purchasers are given the opportunity to view all sales information electronically before submitting bids online.

Where appropriate, the FDIC manages and disposes of the remaining assets from the failed bank location. The FDIC uses the Standard Asset Valuation Estimation (SAVE) methodology, valuation contractors, and financial advisors to value most of the assets of the failed institution and to decide how to market and dispose of them.

The SAVE methodology uses standard assumptions and market information to ensure consistency in the valuation of assets. The valuation process, methodology, and assumptions used to value assets are continually reviewed and, when necessary, updated. The FDIC will continue to update and refine its marketing strategies to market assets as quickly and efficiently as possible.

*Human Resources (staffing and training):* The FDIC has a permanent staff that manages its resolutions and receivership management functions. When workload increases, as it did from 2007 through 2011, the FDIC may add nonpermanent staff and contractor resources to help with these responsibilities. The FDIC may also deploy cross-trained employees from elsewhere within the Corporation. Current and projected workload is continually assessed to ensure that adequate staff and contractor resources are available to fulfill the FDIC's receivership management responsibilities.

Contractors are used as necessary to manage and sell the assets of failed institutions. The FDIC has comprehensive policies, procedures, and internal controls that cover every phase of the contracting process. Contract expenditures declined in 2016, continuing a trend that began in 2011. In 2017, the FDIC will continue to refine its contract support requirements and to shift work from contractors to FDIC employees, where appropriate. In addition, consistent with the requirements of DFA, the FDIC will continue to identify and address barriers to the participation of underrepresented groups, including minority- and women-owned businesses and law firms, in FDIC contracting and asset purchase opportunities.

*Information Technology:* The FDIC uses technology extensively to make its asset management/servicing, sales strategies, and other business processes more efficient and to keep pace with changing market and business practices. The FDIC will continue to use the internet to deliver asset marketing information to potential investors and to sell assets received from failed institutions. In addition, the Franchise Marketing System (FMS) is used to track franchise marketing activities for failed financial institutions. FMS provides a comprehensive source of information on the management, valuation, marketing, and sale of assets. It extracts from ViSION up-to-date examination and supervisory information on each failed institution. The FDIC also establishes bid list criteria for each prospective transaction and identifies qualified bidders in FMS.

#### Verification and Validation

Progress in meeting this annual performance goal is tracked in FMS and reported through established management reporting processes. Each primary federal regulatory agency reviews bid lists before bids are solicited to ensure that they include only those institutions that meet the established criteria for the transaction.

#### 2016 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2016. This annual performance goal and its associated performance indicator and target are unchanged for 2017.

**Annual Performance Goal 5.1-2**

Manage the receivership estate and its subsidiaries toward an orderly termination.

**Indicator and Target****1. Timely termination of new receiverships**

- *Terminate at least 75 percent of new receiverships that are not subject to loss-share agreements, structured sales, or other legal impediments within three years of the date of failure.*

**Means and Strategies**

*Operational Processes (initiatives and strategies):* The oversight and prompt termination of a receivership preserves value for the uninsured depositors and other receivership claimants by reducing overhead and other holding costs. An individual action plan is established for each receivership, and staff is assigned from the appropriate functional areas (e.g., asset, liability, finance, and legal) to execute that plan. Receivership oversight staff monitors the execution of each action plan, including goals and milestones. In addition, an oversight committee consisting of department managers meets monthly to review and evaluate the progress that has been made in carrying out each plan.

To be eligible for termination, a receivership must be free of impediments that represent material financial or legal risks to the FDIC. These impediments may include outstanding contractual liabilities, outstanding offensive or defensive litigation, potential representation and warranty asset sale claims, open employee benefit plans, open subsidiary corporations where articles of dissolution have not yet been approved, and known or potential environmental contamination liabilities. Once the FDIC has disposed of all of the assets of the receivership, resolved all liabilities, and made sure that no material financial or legal risks remain, a final distribution is made to the creditors of the receivership and the receivership entity is terminated.

The FDIC continues to work to remove impediments to the termination of its remaining open receiverships. During 2016, five new receiverships were added to the FDIC's inventory of receiverships and 73 were terminated, leaving 378 active receiverships at year end.

*Human Resources (staffing and training):* Current and projected workloads are continually assessed to ensure that adequate staff and contractor resources (if needed) are available to fulfill the FDIC's receivership management responsibilities.

*Information Technology:* The Receivership Oversight Management System (ROMS) tracks FDIC receiverships through the termination process and assists in tracking active and inactive receiverships. ROMS identifies impediments to termination as well as termination milestone dates.

### Verification and Validation

The process of inactivating a receivership is tracked in FDIC systems. Monthly reports of deactivations are reviewed for accuracy. System users validate the data and any discrepancies are reconciled. Results are reported through established management processes.

### 2016 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2016. This annual performance goal and its associated performance indicator and target are unchanged for 2017.

## **STRATEGIC OBJECTIVE 5.2**

Potential recoveries, including claims against professionals, are investigated and resolved in a fair and cost-effective manner.

### **Annual Performance Goal 5.2-1**

Conduct investigations into all potential professional liability claim areas for all failed insured depository institutions and decide as promptly as possible to close or pursue each claim, considering the size and complexity of the institution.

### Indicator and Target

1. Percentage of investigated claim areas for which a decision has been made to close or pursue the claim
  - *For 80 percent of all claim areas, make a decision to close or pursue professional liability claims within 18 months of the failure of an insured depository institution.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* The FDIC investigates potential claims against professionals (e.g., directors, officers, attorneys, and others) whose actions may have contributed to losses at a failed institution and assesses the viability of insurance policies and the carriers that provide fidelity insurance to the failed institution. Once the investigation is complete, the FDIC determines whether it has viable, cost-effective claims and whether it should pursue them. Most professional liability investigations must be completed and viable claims filed within three years following an institution's failure to meet statute of limitations requirements.

The FDIC's attorneys and investigators ensure that valid claims arising from the failure of an insured institution are fully evaluated within the prescribed time. They investigate the events

that contributed to losses at the institution and research and analyze potential claims. They also determine if a recovery will exceed the estimated cost of pursuing each claim.

The team then recommends to senior FDIC management whether a claim should be pursued or the investigation closed.

*Human Resources (staffing and training):* Workload requirements are regularly reassessed to make sure that staffing is sufficient to fulfill these responsibilities. The FDIC uses contractor resources (including outside legal counsel) and hires temporary staff, as needed. In 2017, the FDIC will identify training needs and provide training to investigators on topics such as insurance claims, interviews, and loan review analysis.

*Information Technology:* Data necessary to track failure dates of insured institutions, potential statute of limitation expiration dates, and other pertinent dates are routinely collected and stored in FDIC systems. Status information and decisions are also tracked.

#### Verification and Validation

Periodic data reviews are conducted to ensure that the information in FDIC systems is current and accurate. Consistent maintenance of these systems ensures that accurate data are readily available to measure compliance with the annual performance goal. Progress in meeting this goal is reported through established management processes.

#### 2016 Performance Results

The FDIC successfully met the performance target for this annual performance goal in 2016. This annual performance goal and its associated performance indicator and target are unchanged for 2017.

### **STRATEGIC OBJECTIVE 5.3**

Resolution of the failure of a large, complex financial institution is carried out in an orderly manner in accordance with statutory mandates.

#### **Annual Performance Goal 5.3-1**

Ensure the FDIC's operational readiness to administer the resolution of large financial institutions, including those designated as systemically important.

#### Indicators and Targets

##### 1. Refinement of resolution plans and strategies

- *Continue to refine plans to ensure the FDIC's operational readiness to administer the resolution of large financial institutions under Title II of the DFA, including those nonbank financial companies designated as systematically important.*

## 2. Enhanced cross-border coordination and cooperation in resolution planning

- *Continue to deepen and strengthen bilateral working relationships with key foreign jurisdictions.*

### Means and Strategies

*Operational Processes (initiatives and strategies):* The largest bank holding companies and designated nonbank financial companies are required to prepare resolution plans under Title I of the DFA. These resolution plans must demonstrate that the firm could be resolved under bankruptcy without severe adverse consequences for the financial system or the U.S. economy. As a backstop, for circumstances in which an orderly bankruptcy process might not be possible, Title II of the DFA provides the FDIC with Orderly Liquidation Authority (OLA) to manage the failure of the firm. This authority may only be implemented after recommendations by the appropriate federal regulatory agencies and a determination by the Secretary of the Treasury in consultation with the President.

OLA is the mechanism for ensuring that policymakers will not be faced with the same poor choices they faced in 2008. Its tools are intended to enable the FDIC to carry out the process of winding down and liquidating the firm, while ensuring that shareholders, creditors, and culpable management are held accountable and taxpayers do not bear losses. The OLA provides the FDIC with several authorities—not all of which are available under bankruptcy—that are broadly similar to those that the FDIC has to resolve the failure of IDI's under the FDI Act. They include the authority to establish a bridge financial company, to stay the termination of certain financial contracts, to provide temporary liquidity that may not otherwise be available, to convert debt to equity, and to coordinate with domestic and foreign authorities in advance of a resolution to better address any cross-border impediments. In the years since enactment of the DFA, the FDIC has made significant progress in developing the operational capabilities to carry out a resolution using the OLA, if necessary.

Given the challenges presented in the resolution of a large, complex financial company—especially as these companies are currently organized and operated—the FDIC initially focused its efforts on developing a resolution strategy called the single point of entry. This strategy would place the top-tier parent company of the firm into receivership while establishing a temporary bridge financial company to hold and manage its critical operating subsidiaries for a limited period. To operate the bridge financial company, the FDIC would appoint a new board of directors and senior management that would be charged with managing the wind-down of the firm in a way that minimizes systemic disruption. In order to minimize moral hazard and promote market discipline, shareholders and creditors would bear losses, and culpable management would be replaced.

As a well-capitalized entity, the FDIC expects that the bridge financial company and its subsidiaries would be in a position to borrow from customary sources in private markets to meet its liquidity needs.



However, if such funding was not immediately available, the law provides a dedicated, back-up source of liquidity—not capital—through the Orderly Liquidation Fund (OLF). The OLF would be used, if necessary, in the initial stage of resolution until private funding could be accessed.

There are a number of important limitations on the use of the OLF. The DFA limits the amount that can be borrowed and requires that any OLF borrowing must be repaid from recoveries on the assets of the failed firm. If that should prove insufficient, assessments would be levied on the largest financial companies. Under the law, taxpayers cannot bear losses. Instead, losses are borne by the failed company through its shareholders and creditors, and, if necessary, by the financial industry through assessments.

The FDIC also established and consults regularly with the SRAC, which advises the FDIC on the potential effects of a large complex financial institution failure on financial stability and economic conditions, the ways in which specific resolution strategies would affect stakeholders and their customers, the tools available to the FDIC to wind down the operations of a failed organization, and the tools needed to assist in cross-border relations with foreign regulators and governments when a systemic company has international operations. Members of SRAC bring a wide range of knowledge and experience to these issues, including expertise in managing complex firms, administering bankruptcies, working within different legal jurisdictions, and applying accounting rules and practices.

Advance planning and cross-border coordination for the resolution of G-SIFIs will be essential to minimizing disruptions to global financial markets. Recognizing that G-SIFIs create complex international legal and operational concerns, the FDIC continues to work with foreign regulators to establish frameworks for effective cross-border cooperation.

*Human Resources (staffing and training):* This annual performance goal will be carried out largely by existing FDIC staff. The training needs of staff are reviewed regularly to ensure that teams have knowledge and expertise necessary to appropriately perform their assigned responsibilities.

*Information Technology:* Existing information technology systems from the failed institution will be used in the resolution of a large, complex firm. The FDIC will continue to identify other IT needs relative to a failure of a large, complex financial institution during 2017.

#### Verification and Validation

The FDIC has extensive experience in resolving the failure of IDIs and has devoted considerable time and resources to planning for the rapid and orderly resolution of a financial institution under Title II of the DFA. To evaluate the effectiveness of these planning efforts and to identify areas of further development, the FDIC held two operational exercises to validate the steps involved in carrying out a systemic resolution. The first operational exercise conducted in December 2015 focused on the initial appointment of the FDIC as receiver of a SIFI and the stabilization phase immediately following appointment. The second exercise covered the operation of a bridge financial company, and the wind down and liquidation of the failed firm.

The exercises included senior FDIC managers and staff representing areas within the organization that would be responsible for executing a resolution under Title II of the DFA. Both operational exercises enhanced organization cooperation, validated the systemic resolution framework, and identified areas for further work.

#### 2016 Performance Results

The FDIC successfully met the performance targets for this annual performance goal in 2016. This annual performance goal is unchanged, but its associated performance indicators and targets have been updated, for 2017.

## **EFFECTIVE MANAGEMENT OF STRATEGIC RESOURCES**

### **Introduction**

The FDIC recognizes that it must effectively manage many critical strategic resources to successfully carry out the annual performance goals outlined in this plan. These resources must be aligned and deployed to the areas where they are most needed. An overview of planned 2017 initiatives to enhance the FDIC's management of its key strategic resources is provided below.

### **Financial Resources Management**

The FDIC does not use taxpayer funds. Its operational expenses are predominantly paid from the Deposit Insurance Fund (DIF), which is funded from assessments paid by insured financial institutions. The FDIC takes very seriously its fiduciary responsibilities to use these funds efficiently and cost-effectively to meet its mission responsibilities. To that end, the FDIC engages annually in a rigorous planning and budget formulation process to make sure that budgeted resources are properly aligned with workload projections and designated corporate priorities (see Appendix B).

The FDIC's disciplined approach to managing its financial resources has been apparent over the past several years. From 2008 through 2010, the FDIC's annual operating budget almost quadrupled and its authorized staffing level almost doubled in response to a rapid increase in the number of problem institutions and insured depository institution failures. The FDIC relied primarily on nonpermanent staff and contractor resources to address the resulting uptick in its supervisory and resolutions workload in order to facilitate future budget and staffing reductions when workload returned to more normal levels. In subsequent years, both the annual operating budget and authorized staffing level declined substantially. For 2017, the FDIC's annual operating budget and authorized staffing are approximately 46 percent and 30 percent, respectively, below the peak levels experienced in 2010 and 2011 (see Appendix A). The FDIC will continue to carefully monitor both its supervision and receivership management workload and will take steps to further reduce expenses for these programs as underlying workload declines.

### **Human Capital Management**

The FDIC's most important resource is the "intellectual capital" that its employees bring to bear on the accomplishment of its mission. For that reason, the FDIC strives to attract, develop, and retain a highly skilled, diverse, and results-oriented workforce and to be regarded as a preeminent place to work among federal agencies, especially those whose workforces consist primarily of financial professionals.

More than one-quarter of the FDIC's current permanent workforce is projected to retire over the next 10 years. This will provide the FDIC a unique opportunity to reshape its permanent workforce to provide effective regulatory oversight to meet the emerging challenges of an increasingly complex U.S. financial system in the 21<sup>st</sup> century. In 2017, the FDIC will continue to pursue several ongoing initiatives to shape its future permanent workforce while addressing immediate staffing needs.

#### *Workforce Development Initiative*

Like many other federal agencies, the FDIC faces potential succession management challenges as many of its long-term, experienced employees retire. Introduced in 2013, the FDIC's Workforce Development Initiative emphasizes the need to prepare employees to fulfill current and future workforce capability and leadership needs. This focus ensures that the FDIC has a workforce positioned to meet today's core responsibilities, including its oversight responsibilities required under the DFA, while preparing to fulfill its mission in the years ahead.

The Workforce Development Initiative is designed to address comprehensive succession planning needs and workforce development challenges and opportunities. The initiative is focused on four broad objectives: to attract and develop talented employees across the agency; to enhance the capabilities of employees through training and diverse work experiences; to encourage employees to engage in active career development planning and seek leadership roles in the FDIC; and to build on and strengthen the FDIC's operations to support these efforts.

In 2017, the FDIC will continue to develop and implement the strategies, programs, and infrastructure to support the attainment of these objectives in meeting its long-term workforce needs. The FDIC is in the early stages of a multi-year effort to identify future workforce and leadership requirements, assess current workforce capabilities, support employees who aspire to leadership and management roles, and develop and source the talent to meet emerging workforce needs.

During 2016, the FDIC expanded its interdivisional succession planning review to consider the current state of management talent at the FDIC and establish developmental recommendations for aspiring senior leaders. The long-term goal of the effort is to increase the pool of capable employees eligible to apply for leadership positions through a systematic, deliberate approach to cultivating leadership talent. In 2017, the FDIC plans to further the implementation of these and other efforts to achieve the goals of the Workforce Development Initiative.

A key component of the FDIC's long-term workforce development strategy continues to be the Corporate Employee Program (CEP). The CEP is the primary vehicle used to fill new, entry-level positions in the FDIC's core bank supervision and resolutions and receivership management functions.

Once employees complete the CEP training program and are commissioned in their assigned disciplines, they have numerous opportunities to further their expertise in particular specialized areas.

In 2016, the FDIC continued a multi-year effort to develop more advanced skills through rigorous and structured training programs for specialists in such areas as accounting, capital markets, information technology, Bank Secrecy Act compliance, anti-fraud, anti-money laundering, trust, and a variety of other specialized areas. The FDIC also provides opportunities to prepare employees for managerial and leadership positions.

Another outgrowth of the FDIC's strategic workforce planning is an employee development program designed to expand the number of FDIC employees who have broad, cross-divisional experience with the largest and most complex FDIC-insured banks and bank holding companies. The program provides experience in supervision, risk analysis and monitoring, deposit insurance pricing and fund management, and resolution planning.

FDIC employees and leaders have a long tradition of responding effectively in times of crisis, while continuing to execute day-to-day mission requirements. Through further development of its human capital strategies, the FDIC will work to ensure that the future FDIC workforce is as prepared, capable, and dedicated as the one it has today.

#### *Workforce Diversity and Inclusion*

In 2017, the FDIC will continue to pursue a more comprehensive, integrated, and strategic focus on diversity and inclusion within the FDIC workforce. The FDIC Diversity and Inclusion Executive Advisory Council, composed of key senior executives, oversees the implementation of the FDIC Diversity and Inclusion Strategic Plan, which was initially issued in early 2013 and is updated annually.

The plan lays out a course for achieving workforce diversity through targeted recruiting; cultivating greater workplace inclusion through collaboration, flexibility, and fairness; and ensuring the sustainability of diversity and inclusion achievements by equipping leaders with the ability to manage diversity, monitor results, and refine approaches on the basis of actionable data. The plan details specific steps to enhance diversity and inclusion at the FDIC in the areas of recruiting, hiring, succession planning, leadership engagement, analytics and reporting, training, communications, strategic planning, and performance management rating enhancements.

#### *A Culture of Workplace Excellence*

Over the past several years, the FDIC has participated in annual employee surveys conducted by the U.S. Office of Personnel Management. These surveys identified major areas of strength as well as opportunities for improvement in employee satisfaction and engagement within the FDIC workforce.

Survey results have consistently demonstrated that FDIC employees have an excellent understanding of the FDIC's mission and strategic direction and know how their work fits into the organization's goals and priorities. They enjoy their work, believe it is important, and gain a sense of personal accomplishment from it.

Employees also are highly satisfied with their pay and benefits, as well as the FDIC's family-friendly work-life balance programs, physical work environment, and training, technology, and other resources.

The FDIC's Workplace Excellence (WE) Program plays an important role in helping the FDIC maintain a culture of excellence. The WE Program is composed of a National WE Steering Committee and individual Division/Office WE Councils focused on maintaining, enhancing, and institutionalizing positive workplace and cultural change at the national and division/office levels at the FDIC. The WE Program enhances communication, provides additional opportunities for employee input and engagement, and promotes employee empowerment.

### *Employee Learning and Development*

The FDIC provides employees with skills-based training and leadership development opportunities to help achieve its mission. In 2017, the FDIC's Corporate University will continue to offer innovative solutions to prepare both current and new employees for the challenges ahead. It also will continue to use its learning programs as opportunities to strengthen its organizational culture, build key competencies, and reinforce corporate values.

The FDIC provides its workforce with the technical knowledge and skills necessary to examine and supervise financial institutions and manage receiverships. In 2017, the FDIC will continue to develop and implement the priority training components of the Division of Depositor and Consumer Protection (DCP) and the Division of Risk Management Supervision (RMS), as approved by the divisions' Training Oversight Committee. This work will ensure that examiner curricula reflect recent regulatory changes and expand the use of distance-learning methods to provide field staff with access to training resources.

Having concluded a three-year effort to develop a comprehensive curriculum to provide foundational knowledge, specialized skills, and cross-training opportunities across functions for employees in the Division of Resolutions and Receiverships (DRR), the FDIC will incorporate learning and development strategies to ensure readiness for future resolutions and receiverships activity. In support of the FDIC's responsibilities for the possible orderly liquidation of a systemically important financial company, facilitated discussions and tabletop exercises will continue to be used to enhance strategic and operational readiness, build interagency relationships, and implement and test new policies and procedures.

In addition to technical training, the FDIC is focused on developing employees as leaders at all levels of the organization. The FDIC has a comprehensive leadership development curriculum that consists of core courses, electives, and enrichment activities. In 2016, the FDIC launched a transition program for new executives, delivered four new elective courses, and increased delivery of custom training by 30 percent.

In 2017, the FDIC will continue to deliver both core and elective courses and will focus on curriculum updates, the introduction of new elective topics, and development and delivery of the 2017 required supervisory training on the topic of change management.

### **Management of Information Technology Resources**

Reliable, up-to-date, and secure information technology (IT) is essential to accomplishing the FDIC's mission. The FDIC's ability to preserve and promote confidence in the U.S. financial system requires safeguarding critical FDIC information from those who would compromise it, while providing responsive access to those with appropriate authority. Effective management of the FDIC's IT balances accessibility and security while providing scalable systems that are highly resilient.

In 2017, the FDIC will embark on a multifaceted effort intended to strengthen its information security and privacy, enhance continuity of operations, and improve use of enterprise architecture and mobility, while more fully utilizing information analytics to enhance the delivery of IT service to the FDIC and its supporting partners. This effort will optimize resources collaboratively to take advantage of emerging innovative technologies.

#### *Information Security and Privacy*

Cyber-attacks and data breaches are a growing threat to banks, businesses, financial markets, utilities, and the FDIC. During 2017, the FDIC will prioritize its efforts to protect its networks and data from unauthorized access, data breaches, and intrusions. This includes implementing technology protections that will give system access only to authorized users. As part of this effort, the FDIC will expand the use of multi-factor authentication (MFA) similar to that already in use in corporations and other Federal agencies. The FDIC also will explore and implement technologies that can improve the Corporation's ability to classify corporate data and protect sensitive data from unauthorized sharing as it travels outside FDIC's security perimeter. This includes implementing more stringent policy and management controls to identify information wherever it resides and assign safeguarding requirements to information according to its sensitivity and risk.

In 2017, the FDIC will continue to implement current and emerging Federal information security regulations, policies, and practices, including those governing the collection, access, and use of data to execute the FDIC's mission.

#### *Continuity of Operations (COOP)*

The FDIC has been classified as a Category II FEMA organization. The Presidential Policy Directive 40 that was issued in July 2016 requires that Category II FEMA systems providing mission essential functions (MEFs) be in a continuous operating mode, superseding the prior 12-hour recovery time requirement. As a result, the FDIC must create appropriate plans to comply with this directive and determine how best to modernize IT systems supporting these MEFs to operate in that mode.

In 2017, the FDIC will begin to implement plans to migrate these systems to a platform that meets COOP requirements, mitigates the risk associated with the geographic location of its data centers, and ensures stable and secure access to the data necessary to carry out its MEFs. It will also complete the migration of its commodity email services to a cloud-based environment.

### *Enterprise Architecture*

Consistent with Federal “Cloud First” policy, the FDIC will evaluate safe, secure cloud computing options before making any new investments. As appropriate, new applications will be developed to realize the benefits of cloud computing. In conjunction with its consideration of cloud computing options, the FDIC will also evaluate its current enterprise architecture program to ensure that it has a stable and robust enterprise architecture that is consistent with FDIC’s needs and is attainable through the available IT marketplace. In 2017, the FDIC will start the development of IT roadmaps for each business division that integrate the delivery of new IT initiatives with business goals.

### *Information Management and Analytics*

As the financial industry grows increasingly complex, so too does the expectation that the FDIC will take increasing advantage of large volumes of structured and unstructured public and non-public data. Information Management and Analytics, therefore, will be a strategic corporate focus area for the foreseeable future.

During 2017, the FDIC will actively focus attention on improving the Enterprise Data Warehouse (EDW), which is the basis for improved analysis, reporting, and application development. The EDW will facilitate the use of large data sets, open data, and unstructured information to provide the FDIC more complete analyses and visualization. These tools help the FDIC to achieve its mission in this increasingly complex financial environment.

## **Management Controls**

As an integral part of its stewardship of the DIF, the FDIC maintains a comprehensive risk management and internal controls program that is designed to improve the efficiency, effectiveness, control, and risk-focus of internal operations. Staff in the FDIC’s internal controls program advise and assist with issues such as risk management, internal controls, system security, privacy, operational effectiveness and efficiency, post-project reviews, and audit follow-up. As the FDIC transitions back to post-crisis operational status, those efforts will return to ensuring that key financial operations and processes maintain sound internal controls. The goal will be to ensure that these operations are managed appropriately and that opportunities to improve the control environment are identified and implemented in an efficient and timely manner.

In 2017, the FDIC will focus on improving its core business functions, with a continuing emphasis on activities associated with DFA Title II implementation, system security management, system development risk management, enhanced performance metrics, and the operational risks accompanying client-led development.



The FDIC also will continue to review a sample of transactions and invoices to confirm management attestations that financial reporting and internal control procedures have been correctly followed. Process maps are being developed for critical operations, and billing reviews will be performed on high-dollar contracts as part of monitoring exposure to improper payments. All of these efforts support processes to ensure that the foundation of controls remains strong throughout the FDIC.

In 2016, the FDIC piloted the implementation of policies and controls to govern internal decision support models used by its divisions and offices. This comprehensive, corporate-wide model validation program will continue in 2017. This program will ensure that FDIC models are sound through routine testing and evaluation, which is carried out according to tailored model validation programs approved by FDIC senior management.

## **APPENDICES**

**Appendix A: Program Resource Requirements**

**Appendix B: The FDIC's Planning Process**

**Appendix C: Program Evaluation**

**Appendix D: Interagency Relationships**

**Appendix E: External Factors**

## **APPENDIX A**

### **Program Resource Requirements**

The chart below breaks out the 2017 FDIC Operating Budget by the FDIC's three major program areas: insurance, supervision, and receivership management. It shows the budgetary resources that the FDIC estimates it will spend on these programs during 2017 to pursue the strategic goals and objectives and the annual performance goals in this plan and to carry out other program-related activities. The estimates include each program's share of common support services that are provided on a consolidated basis.

Supervision	\$1,059,490,977
Insurance	\$317,199,946
Receivership Management	\$528,666,577
Corporate Expenses	\$252,465,264
TOTAL	\$2,157,822,764

## APPENDIX B

### The FDIC's Planning Process

The FDIC has a long-range Strategic Plan that identifies goals and objectives for its three major programs: insurance, supervision, and receivership management. It also develops an Annual Performance Plan that identifies annual goals, indicators, and targets for each strategic objective. In early 2015, the FDIC Board of Directors approved a new *FDIC Strategic Plan, 2015–2019*, that reflected the addition of strategic goals and objectives related to the FDIC's new responsibilities for resolution planning for large and complex banks and bank holding companies under the DFA.

In developing its Strategic and Annual Performance Plans, the FDIC uses an integrated planning process in which senior management provides guidance and direction on FDIC goals and priorities. Plans and budgets are developed to achieve those goals and priorities with input from program personnel. Business requirements, industry information, human capital, technology, and financial data are considered in preparing annual performance plans and budgets. Factors influencing the FDIC's plans include changes in the financial services industry, the findings of program evaluations and other management studies, and past performance.

The FDIC communicates its strategic goals and objectives and its annual performance goals, indicators, and targets to employees through its internal website and internal communications, such as videos, newsletters, and staff meetings. Pay and recognition programs are structured to reward employee contributions to the achievement of the FDIC's annual performance goals.

Throughout the year, FDIC senior management reviews progress reports. At the end of the year, the FDIC submits its *Annual Report* to Congress. That report, which is posted on the FDIC's website ([www.fdic.gov](http://www.fdic.gov)), compares actual performance results to the performance targets for each annual performance goal.

## **APPENDIX C**

### **Program Evaluation**

The Corporate Management Control Branch in the Division of Finance (DOF) coordinates the evaluation of the FDIC's programs and issues follow-up reports. Program evaluations are interdivisional, collaborative efforts, and they involve management and staff from all affected divisions and offices. Division and office directors use the results of the program evaluations to assure the Chairman that operations are effective and efficient, financial data and reporting are reliable, laws and regulations are followed, and internal controls are adequate. These results are also considered in strategic planning for the FDIC.

Since the beginning of the financial crisis, the FDIC has expanded the range of issues receiving close management scrutiny to encompass crisis-related challenges. Management continues to pay particular attention to the areas of cybersecurity, failed bank data, the development of IT systems supporting FDIC operations, infrastructure development for new operational areas, as well as process mapping and development of performance metrics in several areas. In 2017, risk-based reviews will continue to be performed in each of the FDIC's strategic program areas. Results of these reviews will assist management by confirming that these programs are strategically aligned or by identifying changes that need to be made.

## **APPENDIX D**

### **Interagency Relationships**

The FDIC has productive working relationships with agencies at the state, federal, and international levels. It leverages those relationships to achieve the goals outlined in this plan and to promote confidence in the U.S. banking system. Listed below are examples of the many important relationships the FDIC has built with other agencies, seeking to promote strength, stability, and confidence in the financial services industry.

#### **Other Federal Financial Institution Regulatory Agencies**

The FDIC works closely with other federal financial institution regulators—principally the Board of Governors of the FRB and the OCC—to address issues and programs that transcend the jurisdiction of each agency. Regulations are, in many cases, interagency efforts. For example, interagency rules have been developed to address implementation of Basel III; revisions to risk-based and leverage capital requirements; the liquidity coverage ratio; credit risk retention; and other supervisory guidance policies, including policies addressing capital adequacy, information technology and cybersecurity risks, leveraged lending, and liquidity risk management. In addition, the OCC is a member of the FDIC Board of Directors, which facilitates crosscutting policy development and consistent regulatory practices between the FDIC and the OCC.

The FDIC also works closely with the Consumer Financial Protection Bureau (CFPB) to address consumer protection issues. The CFPB is responsible for issuing the majority of consumer protection rules and regulations. However, the CFPB is required to consult with the FDIC, the FRB, and the OCC on these matters. Enforcement jurisdiction for insured, state nonmember banks with less than \$10 billion in assets remains with the FDIC, unless the institution is an affiliate of another insured institution with \$10 billion or more in assets that is supervised by the CFPB. The CFPB Director is also a member of the FDIC Board of Directors. As with the OCC, participation on the FDIC Board facilitates crosscutting policy development and consistent regulatory practices among the FDIC, the CFPB, and the OCC.

The FDIC, the FRB, and the OCC also work closely with the National Credit Union Administration (NCUA), which supervises and insures credit unions; the Conference of State Bank Supervisors (CSBS), which represents the state regulatory authorities; and individual state regulatory agencies. Finally, the FDIC collaborates with the Federal Housing Finance Agency (FHFA), which is the rule-writer and supervisor for the Government-Sponsored Enterprises and the Federal Home Loan Banks.

#### **The Federal Financial Institutions Examination Council (FFIEC)**

The FFIEC is a formal interagency body empowered to prescribe uniform principles, standards, and report forms for the federal examination of financial institutions and to make recommendations to promote uniformity in the supervision of financial institutions. The member agencies of the FFIEC are the FDIC, FRB, OCC, NCUA, and CFPB.

In addition, the Chair of the FFIEC State Liaison Committee serves as a member of the FFIEC (the State Liaison Committee is composed of five representatives of state supervisory agencies). To foster interagency cooperation, the FFIEC has established interagency task forces on consumer compliance, examiner education, information sharing, regulatory reports, surveillance systems, and supervision. The FFIEC has statutory responsibilities to facilitate public access to data that depository institutions must disclose under the Home Mortgage Disclosure Act of 1975 (HMDA) and the aggregation of annual HMDA data for each metropolitan statistical area. It also publishes handbooks, catalogs, and databases that provide uniform guidance and information to promote a consistent examination process among the agencies and make information available to the public. This includes maintenance of a central data repository for CRA ratings and public evaluations. The FFIEC also provides an online Consumer Help Center that connects consumers with the appropriate federal regulator for a particular financial institution.

### **State Banking Departments**

The FDIC, FRB, and OCC work with the Conference of State Bank Supervisors (CSBS) and with individual state regulatory agencies to make the bank examination process more efficient and uniform. In most states, alternating examination programs reduce the number of examinations that are conducted at insured financial institutions, thereby reducing regulatory burden. Joint examinations of larger financial institutions also optimize the use of state and FDIC resources in the examination of large, complex, and problem state nonmember banks and state-chartered thrift institutions.

### **Basel Committee on Banking Supervision**

The FDIC is a member of the Basel Committee on Banking Supervision (BCBS), a forum for international cooperation on matters relating to financial institution supervision, and on numerous subcommittees of the BCBS. The BCBS aims to improve the consistency of capital regulations internationally; ensure that the regulatory capital framework for internationally active banks is risk-sensitive and includes appropriate constraints on the use of financial leverage; and promote enhanced risk management practices among large, internationally active banking organizations. Other areas of significant focus include liquidity and funds management, market risk exposure, and derivatives activities. The FDIC and the other federal banking agencies have worked closely with the BCBS to improve the Basel III Capital Accord to strengthen the resiliency of the banking sector and improve liquidity risk management.

In 2016, the BCBS published a number of final documents to continue this progress, including a Total Loss Absorbing Capacity (TLAC) holdings standard; a consultative document on the regulatory treatment of accounting provisions, answers to Frequently Asked Questions (FAQs) about the supervisory framework for measuring and controlling large exposures, answers to FAQs about the Net Stable Funding Ratio, revisions to the securitization framework, standards for Interest-Rate Risk in the Banking Book, answers to FAQs about the leverage ratio

framework, a consultative document on reducing variation in credit risk-weighted assets, a consultative document on the Pillar 3 disclosure requirements framework, a consultative document on the Standardized Measurement Approach for operational risk, and a revised market risk framework.

The FDIC also provides substantial support on various BCBS quantitative impact studies, which are used to monitor the impact of proposed and final standards on banking entities.

### **International Colleges of Regulators**

The FDIC participates in several groups of international regulators to address international consistency in the implementation of over-the-counter (OTC) derivatives reforms. The OTC Derivatives Regulators' Forum is a college of regulators that discuss initiatives on derivative reforms mandated by the Group of Twenty (G-20) and FSB.

The group is heavily involved in assuring international consistency on the development of trade repositories and central counterparty clearing. It makes recommendations to standing committees, including the Committee on Payment and Settlement Systems, International Organization of Securities Commissions, BCBS, and FSB, for rulemakings. The OTC Supervisors' Group is primarily involved in changing the infrastructure of the largest dealer banks. The group is composed of supervisors of the G-SIFIs. Current efforts are focused on data repositories, dispute resolution, and client clearing. The group obtains commitments from the dealer community to make recommended changes and monitors implementation.

### **Interagency Country Exposure Review Committee**

The Interagency Country Exposure Review Committee (ICERC) was established by the FDIC, FRB, and OCC to ensure consistent treatment of the transfer risk associated with the exposure of banks to both public and private sector entities outside the United States. The ICERC assigns ratings based on its assessment of the degree of transfer risk inherent in U.S. banks' foreign exposure.

### **International Association of Deposit Insurers**

The FDIC plays a leading role in developing IADI into a global standard setter and the world's premier provider of technical assistance and training for deposit insurance. IADI contributes to the stability of the financial system by promoting international cooperation in the field of deposit insurance. Through IADI, the FDIC builds strong bilateral and multilateral relationships with foreign deposit insurers, resolution authorities, and international organizations. The FDIC also provides technical assistance and conducts outreach activities with foreign entities to help develop and maintain sound banking and deposit insurance systems.

### **Association of Supervisors of Banks of the Americas**

The FDIC plays a leadership role in the Association of Supervisors of Banks of the Americas (ASBA) and participates in the organization's activities.



ASBA develops, disseminates, and promotes sound bank supervisory practices and resilient financial systems throughout the Americas and the Caribbean in line with international standards. The FDIC supports the organization's mission and activities by contributing to ASBA's research and guidance initiatives, technical training and cooperative endeavors, and leadership building programs.

### **Shared National Credit Program**

The FDIC participates with the other federal financial institution regulatory agencies in the Shared National Credit Program, an interagency program that performs a uniform credit review annually of financial institution loans that exceed \$20 million and are shared by three or more financial institutions. The results of these reviews are used to identify trends in industry sectors and the credit risk management practices of banks.

The reviews, which are typically published in September of each year, help the industry better understand economic and credit risk management trends.

### **Joint Agency Task Force on Discrimination in Lending**

The FDIC participates on the Joint Agency Task Force on Discrimination in Lending with several other federal financial institution regulators (i.e., the FRB, OCC, and NCUA) along with the CFPB, the Department of Housing and Urban Development, the Federal Housing Finance Agency, the Department of Justice, and the Federal Trade Commission. The agencies exchange information about fair lending issues, examination and investigation techniques, interpretations of statutes, regulations, and case precedents.

### **European Forum of Deposit Insurers**

The FDIC and the European Forum of Deposit Insurers share similar interests, and the FDIC supports the organization's mission to contribute to the stability of financial systems by promoting European cooperation in the field of deposit insurance. The FDIC openly shares its expertise and experience in deposit insurance and failed bank resolution through discussions and exchanges on issues that are of mutual interest and concern (e.g., cross-border issues, bilateral and multilateral relations, and customer protection).

### **Finance and Banking Information Infrastructure Committee**

The FDIC works with the Department of Homeland Security and the Office of Cyberspace Security through the Finance and Banking Information Infrastructure Committee (FBIIC) to improve the reliability and security of the financial industry's infrastructure. Other members of FBIIC include the Commodity Futures Trading Commission (CFTC), CFPB, FRB, NCUA, OCC, Securities and Exchange Commission (SEC), Department of the Treasury, and National Association of Insurance Commissioners (NAIC).

**Bank Secrecy Act (BSA), Anti-Money Laundering (AML), Counter-Financing of Terrorism (CFT), and Anti-Fraud Working Groups**

The FDIC participates in several interagency groups, described below, to help combat money laundering, terrorist financing, and fraud.

- The Bank Secrecy Act Advisory Group is a public/private partnership of agencies and organizations that meets to discuss strategies and industry efforts to address money laundering, terrorist financing and other illicit financial activities. Areas of focus include information technology, foreign correspondent banking activities, money services businesses, prepaid access/cards, cross-border activities, suspicious activity reporting, and other emerging risks.
- The FFIEC BSA/AML Working Group is composed of representatives from the federal bank regulatory agencies, FinCEN, and the CSBS to coordinate BSA/AML policy matters, training, and improve communications among the agencies. The BSA/AML working group builds on existing activities and works to strengthen the ongoing initiatives of other formal and informal interagency groups that oversee various BSA/AML issues. This working group meets monthly and invites other agencies, such as the SEC, CFTC, Treasury, Internal Revenue Services (IRS), and OFAC, on a quarterly basis to ensure broader coordination of BSA/AML and sanctions efforts.
- The Basel Anti-Money Laundering/Counter-Financing of Terrorism (AML/CFT) Expert Group is responsible for monitoring AML/CFT issues that have a bearing on banking supervision, coordinating with the Financial Stability Board, and serving as a forum for AML/CFT experts from banking supervisory agencies.

**Financial Literacy and Education Commission**

The FDIC is a member of the Financial Literacy and Education Commission (FLEC), which was established by the Fair and Accurate Credit Transactions Act of 2003. The FDIC actively supports FLEC's efforts to improve financial literacy in America by assigning experienced staff to provide leadership and support for FLEC initiatives, including leadership of FLEC workgroups emphasizing integrating financial education into youth programs and those engaged in workforce development initiatives.

**Financial Education Partnerships**

The FDIC collaborates with other federal, state, and local government agencies to promote financial education and capability initiatives for consumers and small businesses. During 2016, the FDIC continued to implement the Youth Savings pilot in local schools to demonstrate how to link financial education with safe savings accounts at banks.

The FDIC also continued collaboration with the CFPB to implement and enhance age-appropriate financial education curricula for teachers and related parent guides. In addition, the FDIC continued to collaborate with the U.S. Small Business Administration to expand awareness of *Money Smart for Small Business* and rolled out a new train-the-trainer resource during 2016.

### **Alliance for Economic Inclusion**

The FDIC established and leads the Alliance for Economic Inclusion (AEI), a national initiative to bring all unbanked and underserved populations into the financial mainstream.

The AEI is composed of broad-based coalitions of financial institutions, community-based organizations, and other partners in 14 markets across the country. These coalitions work to increase banking services for underserved consumers in low- and moderate-income neighborhoods, minority and immigrant communities, and rural areas. These services include savings accounts, affordable remittance products, targeted financial education programs, small-dollar loan programs, alternative delivery channels, and other asset-building programs.

### **The Financial Stability Board (FSB)**

The FDIC actively participates in the work of the Financial Stability Board (FSB), an international body established by the G-20 leaders in 2009. As a member of the FSB's Resolution Steering Group and its Cross-Border Crisis Management Group, the FDIC has helped develop international standards and guidance on issues relating to the resolution of G-SIFIs. Much of this work has related to the operationalization of the FSB's Key Attributes.

### **Federal Trade Commission, National Association of Insurance Commissioners, and the Securities and Exchange Commission**

The Gramm-Leach-Bliley Act (GLBA), which was enacted in 1999, permits insured financial institutions to expand the products they offer to include insurance and securities. GLBA also includes increased security requirements and disclosures to protect consumer privacy. The FDIC and other FFIEC agencies coordinate with the FTC, SEC, and NAIC to develop industry research and guidelines relating to these products.

GLBA also requires the SEC to consult and coordinate with the appropriate federal banking agencies on certain loan-loss allowance matters involving public bank and thrift holding companies. The SEC and the agencies have an established consultation process designed to fully comply with this requirement while avoiding unnecessary delays in processing holding company filings with the SEC and providing these institutions access to the securities markets.

In addition, the accounting policy staffs of the FDIC and the other FFIEC agencies and the SEC's Office of the Chief Accountant (OCA) meet quarterly to discuss accounting matters of mutual interest and maintain ongoing communications on accounting issues relevant to financial institutions. Other meetings are held with the OCA, as necessary, either on an individual agency or interagency basis.

**U.S. Small Business Administration Strategic Alliance Memorandum**

The FDIC partners with the U.S. Small Business Administration (SBA) to encourage financial institutions to prudently serve entrepreneurs and small business owners. Through a Strategic Alliance Memorandum (SAM), the FDIC and SBA collaborate by co-sponsoring events and activities to help banks become fully aware of SBA capital access programs and connect banks to opportunities to address small business training, counseling, and financial service needs.

## APPENDIX E

### External Factors: The Economy and its Impact on the Banking Industry and the FDIC

Economic conditions at the national, regional, and local levels affect banking strategies and the industry's overall performance. Business activity tends to be cyclical, and as business and household spending fluctuates over time, these trends influence loan growth and credit performance for the banking industry. Business conditions and macroeconomic policies combine to determine the rate of inflation, domestic interest rates, the exchange value of the dollar, and equity market valuations, which in turn influence the lending, funding, and off-balance-sheet activities of FDIC-insured depository institutions.

***The U.S. economy continued to grow moderately in 2016, but risks to the outlook remain.*** U.S. economic activity picked up in mid-2016 after slowing for several quarters as the adverse effects of a strong dollar and low energy prices abated. Expectations are for continued growth of about 2 percent annually. Business investment remains weak, but steady gains in the labor market have supported consumer spending. The unemployment rate has been low and stable at 4.9 percent for much of 2016, and the tighter labor market has led to a modest increase in wage growth. Continuing improvements in economic activity and an increase in inflation have raised expectations that the Federal Reserve will continue on a path to normalize monetary policy.

The U.S. economy faces a number of key risks and challenges, both ongoing and emerging. As the economy improves and the Federal Reserve acts to raise rates, it will seek to do so in a manner that supports both economic growth and price stability. Financial markets may encounter periods of volatility, which may adversely affect bank profitability. Even modest increases in interest rates and shifts in the yield curve can affect asset valuations and the earnings potential of depository institutions. A strong dollar continues to affect manufacturing and exports, and low commodity prices are affecting energy and agriculture producing regions. Globally, European banks face significant income and balance-sheet challenges that may adversely affect financial markets. Uncertainty about the future of global trade agreements and a slowdown of China's growth could weigh on the global economy and financial markets. If U.S. growth and monetary policy continue to diverge from those of other major countries, then the resulting dollar appreciation would exacerbate existing trade imbalances and challenge manufacturing and export sectors.

Steady expansion of the U.S. economy should continue to support the performance of FDIC-insured institutions. However, the post-crisis environment still poses unique challenges and risks that merit continued attention by regulators.

***Insured institution performance showed mixed results through the four quarters of 2016.*** The 5,913 FDIC-insured commercial banks and savings institutions that filed financial results for 2016 reported net income of \$171.3 billion, up \$8.0 billion (4.9 percent) from 2015. The increase was mainly attributable higher net interest income. More than 65 percent of institutions reported higher net income in 2016 than in the same period in 2015, and only 4.2 percent reported negative net income compared to 4.8 percent a year earlier.

The average return on assets (ROA) was 1.04 percent, unchanged from a year earlier. Net operating revenue—the sum of net interest income and total noninterest income—was \$714 billion, up \$29 billion from a year earlier. Noninterest income declined \$779 million (0.3 percent) in 2016 from the same period in 2015, due to a slight decrease in servicing fee and securitization income. Interest rates rose at year-end; however, realized gains on securities were \$157 million (4.3 percent) higher for the full year. The low interest rate environment bolstered net interest margins at many banks, as they invested in longer-term, higher-yielding assets funded with short-term liabilities. Net interest income was \$29.8 billion (6.9 percent) higher than in 2015.

Loan loss provisions were higher in 2016 than in 2015. Insured institutions set aside \$47.8 billion in provisions for loan and lease losses, a \$10.7 billion (28.8 percent) increase compared to a year earlier. Noninterest expenses were \$5.1 billion (1.2 percent) higher than in 2015, as salary expenses rose \$6.3 billion (3.3 percent).

Asset quality indicators continued to improve in 2016. At year-end 2016, noncurrent loan balances—those that were 90 days or more past due or in nonaccrual status—declined by \$6.3 billion (4.6 percent). Noncurrent 1-to-4 family residential mortgage loans fell by \$15.3 billion (19.0 percent), while noncurrent nonfarm nonresidential real estate loans declined by \$2.1 billion (20.3 percent). Noncurrent real estate construction and land development loans were \$794 million (25.8 percent) lower, and noncurrent commercial and industrial (C&I) loans increased by \$10.2 billion (70.9 percent). The rise in noncurrent C&I loans may be due to weaknesses in the oil, gas, and mining sector caused by prolonged low commodity prices.

Net charge-offs (NCOs) of loans and leases totaled \$42.5 billion in 2016, up \$5.2 billion (14.1 percent) from a year earlier. NCOs of 1-to-4 family residential mortgages were \$1.6 billion (57.1 percent) lower than in 2015, while NCOs of home equity lines of credit declined by \$635 million (34.2 percent). NCOs of real estate loans secured by nonfarm nonresidential real estate properties fell by \$665 million (76.8 percent), and C&I NCOs increased by \$3.8 billion (80.5 percent).

Asset growth was relatively strong in 2016. At year-end 2016, total assets of insured institutions were \$813 billion (5.1 percent) higher than a year earlier. Since year-end 2015, banks increased their investment securities portfolios by \$205 billion (6.1 percent), as holdings of mortgage-backed securities rose by \$133 billion (7.1 percent). Insured institutions decreased their balances with Federal Reserve banks by \$85.8 billion (7.2 percent). Total loan and lease balances increased by \$466 billion (5.3 percent), led by growth in C&I loans (up \$95 billion, or 5.1 percent). Real estate loans secured by nonfarm nonresidential properties increased by \$93.0 billion (7.5 percent), while real estate loans secured by multifamily residential properties rose by \$38.6 billion (11.2 percent).

Much of the growth in assets was funded by increased deposit balances. Deposits in domestic offices increased by \$742.1 billion (6.8 percent) in the twelve months ended December 31. The growth occurred in both large- and small-denomination accounts, as estimated insured and uninsured deposits increased by \$388 billion and \$317 billion, respectively.

Nondeposit liabilities increased by \$39 billion (1.9 percent), as advances from Federal Home Loan Banks increased by \$68.2 billion (13.8 percent). Equity capital rose by \$70.3 billion (3.9 percent).

As of December 31, 2016, 123 insured institutions with total assets of \$27.6 billion were on the FDIC's "Problem Bank List." This is down from 183 problem institutions with combined assets of \$47 billion on the Problem Bank List at year-end 2015. Problem banks are those institutions with financial, operational, or managerial weaknesses that threaten their viability, although historical analysis shows that most problem institutions do not fail.

Over the twelve months of 2016, five banks failed with combined assets of \$278.8 million. The Deposit Insurance Fund balance stood at \$83.2 billion with a reserve ratio of 1.20 percent on December 31, 2016, up from \$72.6 billion and a reserve ratio of 1.11 percent at year-end 2015.